BUDGETING IN PUBLIC AUTHORITIES

In 1952 the Royal Institute of Public Administration embarked on a series of major research projects to be carried out by study groups. This book is the outcome of the third project in the series. The other two are:

THE ORGANIZATION OF BRITISH CENTRAL GOVERNMENT 1914–1956

NEW SOURCES OF LOCAL REVENUE

BUDGETING IN PUBLIC AUTHORITIES

by

A Study Group of the
Royal Institute of Public Administration

CHAIRMAN
R. S. EDWARDS

RESEARCH OFFICER
J. S. HINES

Ruskin House
GEORGE ALLEN & UNWIN LTD
MUSEUM STREET LONDON

FIRST PUBLISHED IN 1959

PRINTED IN GREAT BRITAIN

11 *on* 12 *pt. Bell type*

BY SIMSON SHAND LTD

LONDON, HERTFORD AND HARLOW

MEMBERS OF THE STUDY GROUP

DR R. S. EDWARDS, *Chairman, North Eastern Gas Board (Chairman)*

W. L. ABERNETHY, *Deputy Comptroller, London County Council*

HENRY A. BENSON, C.B.E., *Chartered Accountant*

A. F. BLAIR, *Treasurer, South-West Metropolitan Regional Hospital Board*

T. BROCKIE, *Under-Secretary for Finance, Ministry of Works*

E. BROUGH, *Chairman, Crosfields (CWG) Ltd*

G. B. ESSLEMONT, J.P., *City Chamberlain, Glasgow*

J. K. HORSEFIELD, C.B., *Director of Finance and Accounts, General Post Office*

C. M. JENNINGS, *Assistant Treasurer, Imperial Chemical Industries Ltd*

A. W. JOHN, O.B.E., *Director-General of Finance, National Coal Board*

ERNEST LONG, *Member, Central Electricity Generating Board and Electricity Council*

DR A. H. MARSHALL, C.B.E., *City Treasurer, Coventry*

E. A. SHILLITO, *Under-Secretary, Admiralty and formerly of H.M. Treasury*

Miss J. S. Hines died tragically on March 6, 1959, following a road accident. This book is a testimony to her exceptional qualities and to the great loss which was sustained in her death.

ABBREVIATIONS USED IN FOOTNOTES

Aguide	Notes for the Use of Accounts Branches of Government Departments, Fourth Edition, (H.M.S.O., 1929)
H.C.	House of Commons Sessional Paper, Number
H.M.S.O.	Her Majesty's Stationery Office, London
I.M.T.A.	Institute of Municipal Treasurers and Accountants (Incorporated), London
P.A.C.	Public Accounts Committee

Place of publication is London unless otherwise stated. Full details are given in the bibliography

PREFACE

FOR the third of its series of major research projects the Royal Institute of Public Administration chose the subject of budgeting, one of the most important instruments of administration. The objects of this study were to examine the different kinds of budgets used in the public services, the purposes they serve, and the ways by which they are constructed and finally settled. From this analysis it was hoped to reveal the methods conducive to good administration, and to draw attention to any prevailing practices which might be capable of improvement.

This study was financed by a grant from the P.D. Leake Trust, created under the will of the late Percy Dewe Leake 'for the benefit and advancement of the sciences of accounting and of political economy including the subject of public finance and taxation'. The Royal Institute of Public Administration wishes to record its sincere appreciation of this generous support, which made this inquiry possible.

Once again the Institute adopted the Study Group method of research, which it had successfully employed in its other major research projects. The Chairman of the Study Group for this inquiry was Dr R. S. Edwards, Chairman of the North-Eastern Gas Board. The Institute appreciates particularly the wise and vigorous leadership which he imparted to this enterprise. The other members of the Study Group are listed on the opposite page. Most of them were drawn from the public services, but the Group also included representatives of privately-owned industry and the professions. The Institute is extremely grateful to all the Study Group members for giving so much of their time, energies and experience to the furtherance of this study.

Each member of the Study Group served in a personal capacity, and nothing in this report should be regarded as expressing the views of any organization with which he is or has been connected.

The Study Group were assisted by a full-time Research Officer, Miss J. S. Hines, M.A., who carried out the detailed investigations decided upon by the Group and drafted the report in accordance with their directions. Miss Hines made

an outstanding contribution to this study. Her ready grasp of the subject and her constant industry resulted in the work being carried through with speed and thoroughness, and with a skill that the Institute and the Study Group were fortunate to have at their disposal.

The organizations whose practices were studied in detail were chosen with a view to covering between them the main aspects of, and the main variations in, budgeting in the public sector. The inquiry had to be restricted in one or two ways. For example, security considerations made it preferable to exclude the defence departments, and the reorganization of British Railways made it inopportune to study the budgeting of the British Transport Commission. As will be seen from the following pages, however, a survey has been made of a broad and representative sample of government departments, local authorities, nationalized industries and hospital authorities.

Most of the research was done by personal inquiries and interviews, the method thought likely to secure the best results by making it possible to look beyond the formal rules and procedures to the practices which have actually evolved in each organization. In local government and the hospital service, where there are hundreds of authorities of the same or similar kinds, special care was taken to select authorities illustrating the main variations in budgeting in these services. As regards hospital management committees, the conclusions emerging from these studies were tested and substantially confirmed by the replies to a questionnaire submitted to some fifty committees. The Association of Chief Finance Officers in the Hospital Service in England and Wales kindly distributed this questionnaire and summarized the replies. Studies were also made of the budgetary practices of two large commercial companies, Imperial Chemical Industries Ltd and Hoover Ltd.

The Institute would like to thank most warmly all those who assisted by granting interviews, supplying documents and authorizing the publication of material. They are not, of course, responsible for any of the conclusions expressed. This study could not have been carried out without their ready co-operation and sympathetic help.

CONTENTS

CHAPTER I

THE PRACTICE OF BUDGETING

The Significance of Budgeting

Budgets now occupy a leading place among the special tools of management employed to direct and control the affairs of large and multifarious organizations. They are used not only by governments, where budgeting had its origins, but in other public bodies, in industry and commerce and in private families. All have found that a budgetary system can be an invaluable aid in planning and formulating policy and in keeping check on its execution.

The word 'budget' is derived from the old French *bougette*, meaning a small bag or pouch. It was first used in England to describe the white leather bag or pouch that held the seal of the medieval Court of the Exchequer. Later the minister's bag containing his proposals for financing government expenditure likewise became known as his 'budget'. When he presented his proposals to Parliament he was therefore said to 'open his budget'—a phrase first used in about 1733. Gradually the word 'budget' came to be used for his proposals themselves, and hence for any statement of plans and expectations for a future period, whether of governments, public bodies, commercial companies or private individuals. The word has now been incorporated in many other languages. The French themselves began to use it in the anglicized form early in the nineteenth century, in place of the less democratic *état du roi.*

The practice of budgeting as it is now understood originated in the central government of Great Britain. It developed gradually as a result of Parliament's struggles to obtain control over the finances of the Crown. As early as 1217, it was declared in Magna Charta that 'no scutage or aid shall be imposed in the Kingdom unless by the common council of the realm. . . .' After the Revolution of 1688 Parliament asserted the right to authorize

expenditure by the Crown as well as taxation, apart from items in the sovereign's Civil List which was gradually reduced until it covered only the personal expenses of the royal family. Otherwise Parliament began not only to fix the government's total expenditure but also to prescribe or 'appropriate' the amounts to be spent for particular purposes. Although the Crown retained the initiative in proposing to levy taxes or incur expenditure, it surrendered the power to do so except by authority of an act of Parliament. Early in the nineteenth century, ministers began to present all their proposals for revenue and expenditure in a single annual statement to Parliament. After 1861 all taxation measures for the year were authorized in a single Finance Act, while the greater part of government expenditure was approved, for a year at a time, in one Appropriation Act.

Thus the national budget system came into being as a means of asserting parliamentary control over the executive. In the nineteenth and early twentieth centuries many other countries followed the British lead in establishing budgetary systems as one of the fundamental constitutional safeguards of democratic government, whether of a parliamentary or a presidential character, until they are now a well-nigh universal feature of central government finance. In the United States, unlike most other countries, budgeting first developed in municipal and state governments and only later extended to the federal government, where it became obligatory under the Budgeting and Accounting Act of 1921.

An entirely new approach to government budgeting was opened up by the revolution in economic theory in the 1930s. The new school of economists drew attention to hitherto unrecognized possibilities of using fiscal measures to regulate the level of employment and economic activity. They emphasized the role of the budget as an instrument of economic planning—a means of assessing probable developments in the national economy and of regulating the volume of taxation and government expenditure to offset threats of inflation or economic recessions. Hence subsequent investigations and discussion have concentrated on the economic implications of public budgeting.

As one American writer has put it, 'The study of government budgeting is a study in applied economics.'[1]

Meanwhile, budgeting has acquired yet another dimension which is neither constitutional nor economic but administrative. This is associated with the rapid development of budgeting in private business over the last thirty years. Budgets have become one of the recognized aids to management, both for formulating policy and for keeping check on its execution. Although private firms have largely taken the lead in this managerial approach to budgeting, public authorities are by no means debarred from sharing in its benefits. Today governments, public-owned trading undertakings, local authorities and other public bodies in many lands are endeavouring to develop these new applications of budgeting as an aid to efficiency in administration.

It is with this administrative facet of budgeting that the present study will be mainly concerned. Although much has been written on the general principles of budgetary control in private business, there has so far been relatively little study of the administrative aspects of budgeting in public authorities outside the United States. Yet the enormous growth in the size and numbers of public bodies over the last few decades makes it all the more urgent to understand the actual and potential role of budgeting as an instrument of public administration.

The present volume is intended as a comparative study of the budgetary systems of different public authorities in Great Britain, including the departments of the central government, local authorities, the nationalized industries and the hospitals within the National Health Service. It will examine the methods each has adopted and the purposes they serve. It will consider how far their differing functions and status affect their methods and objects in using budgets as an aid to policy-making and the control of administration.

The Terminology of Budgeting

There is no precise, generally accepted terminology of budgeting. The word 'budget' is used of many kinds of statements of future plans and expectations, varying enormously in their

[1] Burkhead, Jesse, *Government Budgeting* (New York and London, 1956), p. vii.

form and content, the uses to which they are put, and even their very names. Different organizations have evolved their own terminology, and one will speak of 'programmes' or 'forecasts' whereas others talk of 'budgets' or 'estimates'. Before attempting to compare their practices, it is therefore necessary to define the terms in which they are to be described.

The Oxford Dictionary defines a 'budget' as 'a statement of the probable revenue and expenditure for the ensuing year, with financial proposals founded thereon, annually submitted by the Chancellor of the Exchequer for the approval of the House of Commons. . . . Hence any analagous statement, estimate or proposals'. Here the term will normally be used in the wider sense, and not confined to the annual Budget of the central government.

A broader definition, recommended by the Institute of Cost and Works Accountants, describes a budget as:

> 'a financial and/or quantitative statement prepared prior to a definite period of time, of the policy to be pursued during that time for the purpose of attaining a given objective'.[1]

Though framed primarily for use in private businesses, this would also cover most of the budgets used by public authorities. It should be noted, however, that the 'given objective' of a public authority can seldom be defined as clearly as that of a private firm. For so large and multifarious an organization as a national government, it can only be described in very general terms such as 'carrying on the government of the country'. The government's budget will, however, be made up of a large number of more restricted budgets for particular departments, services and organizational units, each of which has specific objectives of its own.

A budget is also generally understood to mean one of a series of similar statements prepared as a regular procedure and not as an isolated exercise. The 'definite period of time' covered by the budget is usually, and in national governments almost invariably, a year. The financial year frequently differs from the calendar year. For the United Kingdom government it extends

[1] *Terminology of Cost Accountancy* (1952), p. 23.

from April 1 to March 31, as it also does in many other public bodies, including all local authorities in England and Wales, the gas and electricity boards, the airways corporations and the hospital service. A budget extending more than a year ahead usually gives separate figures for each financial year.

Another point implicit in the definition quoted is the comprehensiveness of the budget. It should cover all that is to happen during the period. An organization may have special budgets for certain functions, for example publicity or research. But each of these budgets should be a complete summary of all the activities within its allotted sphere.

Although a budget is usually expressed in financial terms this is not absolutely essential. Money is usually the simplest common unit in which to summarize all the diverse activities of a business, government or other authority. But occasionally other common denominators are more convenient. Thus a manpower budget may be a statement of numbers of men and hours of work required, or an output budget may be expressed as the numbers, weight or volume of goods or services to be produced.

The various items which make up a budget are commonly referred to as 'estimates'. Here the term will be employed only in this sense and not, as it is sometimes used, for the probable total cost of a project irrespective of the period in which expenditure is to be incurred. This will be referred to as the 'estimated cost'.

A 'programme', like a budget, is used here to mean a comprehensive statement related to a definite future period. But whereas a budget may be expressed entirely in financial terms, a programme is essentially a list or plan of work to be done, expressed in terms of physical quantities or lists of jobs, usually accompanied by a statement of its financial implications. Programmes also differ from budgets in that they are not necessarily produced at regular intervals.

The foregoing definitions will normally be followed throughout this volume. But as different organizations have their own distinctive terminology it is sometimes more convenient to use the language actually employed in a particular authority.

Different Kinds of Budgets

Since budgets are usually expressed in financial terms, they can most conveniently be classified according to the normal accountancy distinctions between different types of financial transactions. Four types of budgets can thus be defined, as follows:

(1) *Revenue Budgets:* budgets of expenditure to be incurred and income accruing on revenue account.
(2) *Capital Expenditure Budgets:* budgets devoted to proposed acquisitions and disposals of fixed assets.
(3) *Finance Budgets:* budgets of the resources required either for the acquisition of fixed assets or by way of working capital.
(4) *Cash Budgets:* budgets of cash receipts and disbursements during a period.

All these are not of equal importance. The revenue and capital expenditure budgets constitute the main statements of intentions and expectations and consequently claim most attention, alike in current practice and in any general survey of the subject. The finance and cash budgets are largely a reflection of the other two and can be dealt with more summarily. Finance budgets will be considered in conjunction with capital expenditure budgets and cash budgets very briefly in a separate chapter.

Most undertakings outside the central government have quite separate revenue and capital expenditure budgets, reflecting the separation of capital and revenue items in their accounts. The central government, in Britain as in many other lands, has a cash-based accounting system and a single budget covering all receipts and payments, whether in respect of current transactions or for capital investment. In this study, to facilitate comparisons with other authorities, central government budgeting will be considered according to the nature of the activities reflected in the cash estimates. The chapters on revenue budgets will deal with the government's current expenditure and those on capital expenditure budgets with their expenditure on fixed assets.

The Purposes of the Budget

Budgets may also be classified according to the purposes they are intended to serve. Here the definitions are not mutually exclusive, as a single budget can fulfil several different objects. It is convenient, however, to distinguish four main concepts, any or all of which may be reflected in any one budget. First, a budget may be a *plan*, setting out the proposals and decisions of those running the organization. Alternatively, a budget may be regarded as a *forecast* of the results expected, rather than the expression of deliberate intentions. Thirdly, the budget may be an *authorization*—the instrument whereby the supreme governing body sanctions the raising of revenue or incurring of expenditure. Finally, a budget may be treated as a *yardstick* of what expenditure or revenue ought to be if the organization is working efficiently.

Features of a Budgetary System

Any or all of these applications of budgeting are commonly referred to as 'budgetary control'—a phrase often loosely applied to any use of budgets to direct and control activities. This has been defined by the Institute of Cost and Works Accountants as:

> 'the establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results either to secure by individual action the objective of that policy or to provide a basis for its revision'.[1]

Budgetary control thus involves several distinct processes. These may be grouped under two main headings, 'budget preparation' and 'budget execution'. Under 'budget preparation' must be considered:

(1) *The form of the budget:* how the estimates are analysed and related to the costs and quantities of goods and services to be expended or produced; and whether the budget is prepared in a form which shows what these underlying plans and assumptions are.

[1] *Terminology of Cost Accountancy* (1952), p. 23.

(2) *The method of preparing the budget:* how the estimates are prepared, assembled, if necessary revised, and finally adopted by the supreme governing body.

A third issue arising both in preparing and in executing budgets is:

(3) *The relationship of budgeting to policy-making:* how the budget is used in settling or reviewing policy, both in the course of its preparation and after it has been adopted.

'Budget execution' raises two further questions:

(4) *How budgetary control is applied:* to what extent the budget sets a pattern to which the organization is expected to adhere, and what arrangements there are for alterations after it has been approved.

(5) *Comparisons of actual results with the budget:* how the comparisons are made and what action can be taken as a result.

The ensuing chapters will examine the practices of different public authorities in Great Britain in the light of these five facets of budgetary control.

CHAPTER II

THE PUBLIC SECTOR

THE public sector in Great Britain comprises many hundreds of distinct governmental bodies engaged in an immense variety of activities. It includes the departments of the central government, local authorities, and large numbers of other public bodies with varying measures of autonomy in the exercise of their allotted functions. The economic importance of the public sector can be gauged from the fact that in 1957 current expenditure on goods and services by public authorities, excluding the public corporations, accounted for nearly 20 per cent of the gross national product. Public authorities' capital expenditure, including the public corporations, in the same year amounted to 44 per cent of all capital investment in the United Kingdom.[1]

An exhaustive description of the public sector is beyond the scope of this book, but a brief survey of its most salient features is essential in order to understand the settings in which budgetary systems have evolved. A general comparison between the objectives and environment of the public and private sectors will be followed by separate accounts of the activities, organization and financing of four distinct groups of public authorities, central government departments, local authorities, hospital authorities and the nationalized industries. The two latter groups have been selected out of the wide range of other public authorities for which there is no generally accepted definition apart from the negative one of being neither government departments nor local authorities. The nationalized industries provide the most prominent examples of publicly owned trading authorities with a substantial degree of autonomy in the management of their undertakings. The hospital service has been chosen as a leading instance of public authorities with distinct statutory powers but

[1] *National Income and Expenditure*, H.M.S.O., 1957.

not intended to be financially self-supporting and subject to closer ministerial and parliamentary control.

THE PUBLIC AND PRIVATE SECTORS CONTRASTED

The great point of difference between the public and private sectors lies in their ultimate objectives. Although in reality the distinction is by no means rigid and clear cut, a highly over simplified comparison between typical public and private organizations will serve to bring out the main differences of emphasis.

For the private business, profitability provides a financial criterion of success for every branch of its activities. These are determined by market forces to a large extent outside the firm's control. Output is dictated by what the producer can sell and how much the consumer is prepared to pay for it. Given this pattern of demand, management must try to regulate their output and prices so as to secure in the long run a surplus of income over expenditure. They must so direct their operations as to produce the output required at the lowest possible cost. Two leading principles must determine their reaction to any new proposal or change in circumstances—to maximize income and to minimize expenditure.

Budgets will therefore be used primarily as forecasts and yardsticks. Forecasts of results will be wanted for guidance in settling policy as to output, prices, development and the financing of capital expenditure. Expenditure budgets will also be needed as yardsticks of what certain operations ought to cost, in order to decide whether actual results are better or worse than might reasonably be expected. On the other hand, as the market remains sovereign, management cannot normally treat their budgets as rigid plans or authorizations to produce or spend a given amount. They must be constantly ready to modify their policy should demand or costs turn out to be different from the original estimates.

For a non-trading public authority, by contrast, a budget is a plan of activity which, after approval, becomes an authorization to spend certain sums or employ certain quantities of manpower and other resources for specified purposes. Demand is

not the effective limiting factor. There are always far more worthwhile things to do than resources available to do them. Demand is not, as in a competitive commercial market, automatically restricted by the fact that the consumer must pay a price which directly reflects the costs of the goods or services supplied. Most services are not paid for directly by the beneficiaries, but from a central pool of revenue from taxation or grants from higher authorities. The size of this pool is settled, after considering the expenditure necessary or desirable, by fixing taxes or grants to provide the appropriate amount of revenue. Thereafter any changes in spending plans have to be regulated as far as possible so as to keep within that fixed income.

A budget can thus be conceived as the master-plan for allocating limited resources between all the different activities that have to be financed from the central pool. This has to be done by weighing the competing claims of different services, deciding what marginal items must be sacrificed, and examining every possible combination of alternatives to find that which will further the public interest more than could be done in any other way with the funds available. There is no simple measurable test for deciding this, such as the profitability citerion supplies in the private sector.

In a service like education, for example, it is always easy to argue that more good could always be done if more money were spent. But more spending on education would mean less on other services which many would think even more vital. The basic problem is to decide how much of the nation's limited resources to devote to each service so as in the aggregate to maximize the benefits received. There is no easy way of measuring and comparing the benefits to be derived from such diverse alternatives as educating technologists, developing nuclear weapons, building roads or hospitals, or broadcasting to countries of hostile or doubtful political sympathies. Even within a single service the same dilemma remains. In education there may be a choice between longer teacher training, a higher school leaving age, smaller classes, more university students, or improved facilities for further education. There are no common criteria for judging

between such alternatives, or even any easy test of whether higher expenditure on any one will in fact produce a higher standard of service at all. To spend more on school libraries would do little good if the books are not read, and lower expenditure on school meals or stationery might mean less waste of food or paper rather than a lower standard of feeding or instruction. The root of the problem is that the ultimate object—'the public interest'—means different things in different services. And in a democratic system what finally decides the issue is what those in authority think will be most acceptable to the community as a whole.

In reality, of course, the circumstances and objectives of public and private concerns are not so simple or diametrically opposed as the foregoing analysis would suggest. Private businesses engage in many activities for which profitability and consumer demand cannot provide any directly measurable indication of what is required. The effects on net earnings of expenditure on employees' welfare or basic research, for example, cannot be assessed in precise figures. Decisions as to what ought to be spent on such activities involve broader considerations not related to the firm's immediate financial position.

Conversely, considerations of profitability and public demand are seldom wholly immaterial in the public sector. There are now a large number of publicly owned industrial and commercial enterprises with a specific duty to operate on commercial principles and see that their income from trading is not less than sufficient to cover their expenditure on revenue account over a period of years. Publicly-owned trading undertakings in Britain include the nationalized coal, gas, electricity supply and considerable sectors of inland transport and civil aviation industries; a large number of passenger transport, water supply and other trading concerns operated by local authorities; the Post Office—the largest of all government departments—and many other trading activities undertaken by the central government, ranging from the management of licensed premises in certain parts of the country to the operation of civil aerodromes.

Even in non-trading public authorities financial results may still be a relevant test of success. Though there is no direct

revenue and hence no question of maximizing earnings, public bodies no less than private firms need to obtain the best value for their money. Hence the public sector needs budgets to be not simply plans and authorizations but also yardsticks of what its services ought to cost. Indeed, its need for budgets as yardsticks is often greater than in private industry, which can more often rely upon standard costs or non-financial statistics for the main check on efficiency in operations.

The public sector also requires budgets as forecasts of probabilities for use in settling and reviewing policy for the future. It is not always possible to use the same budget both as a forecast and a yardstick and also as a plan and authorization of activity. But the importance of the latter uses of budgeting in the public sector does not mean that public authorities can afford to neglect its other applications.

The purposes and problems of budgeting in the private and public sectors are not therefore dissimilar. The former gives more attention to regulating output according to demand and profitability and the latter to allocating limited resources among services whose relative value cannot be measured in terms of money. Both sectors, however, embrace organizations which vary enormously in the nature of their activities and the principles on which they operate.

THE CENTRAL GOVERNMENT

Activities

The central government in Great Britian can be regarded as embracing all bodies for whose activities a Minister of the Crown is accountable to Parliament. The most important are the twenty or so major departments of state headed by ministers of Cabinet rank. There are also a large number of other departments, boards, committees and commissions under the aegis of a minister, whose budgeting and accounting arrangements are identical with those of the departments of state. All these are classed for budgetary purposes as 'Supply Services'. There are also a number of special funds, notably the National Insurance Funds, for which separate accounts are maintained but which are

directly controlled by the departments or other bodies administering Supply Services. Ministers are also accountable to Parliament for grants-in-aid to many other bodies, such as the Arts Council, the universities, the Metropolitan Police or the Council of Industrial Design, which are themselves subject to different methods of financial control by the appropriate ministry.

Government departments are engaged in an enormous range of very diverse activities: international, Commonwealth and colonial affairs; functions relating to trade, industry and transport; the collection of public revenue; the control of financial and economic policy; legal affairs; the penal system; the social services; and common services for other government departments. Some departments, like the Home, Foreign and Commonwealth Relations Offices, are mainly concerned with the older, regulatory and diplomatic functions of the state; others handle the vast, and relatively new programmes of social services in the spheres of health, education, pensions and national insurance. Some, like the Post office and the Ministry of Pensions and National Insurance, deal directly with the public, while others, like the Ministries of Health, Education, and Housing and Local Government, are mainly concerned with services provided by local authorities or other autonomous bodies. While many are almost exclusively concerned with expenditure for current consumption, others—like the Ministry of Works, the Ministry of Transport and Civil Aviation and the defence departments—spend large sums on works of a capital nature. Some, like the Foreign Office or the Ministry of Education, are financed almost exclusively from the Exchequer; others receive a considerable amount of revenue accruing to the service, for example, in the form of insurance contributions or direct charges for services rendered. One—the Post Office—is a major trading undertaking working on commercial principles, and some others including the Ministry of Supply and the Ministry of Agriculture, Fisheries and Food, carry on trading activities amongst their other functions.

Organization

The essential common characteristics of all government depart-

ments are founded upon the principles of Cabinet and ministerial responsibility which constitute the ultimate guarantee of parliamentary control over the executive. The minister is directly answerable to Parliament for every aspect of his department's policy and for every act of its staff. Major issues are considered the collective responsibility of the whole Cabinet jointly and not merely of the ministers whose departments are immediately concerned.

Below the minister, each department is staffed by permanent civil servants, the chief of whom, usually known as the Secretary, is the 'permanent head' of the department with functions extending to every aspect of its activities. Since 1956 the Treasury has had two permanent heads, each concerned with different aspects of the department's work. Each department has an Accounting Officer who is directly answerable to Parliament for all receipts and payments accounted for by the department. Nowadays this position is usually held by the permanent head of department concurrently with his other responsibilities. Below him, financial business is usually entrusted to a special Division headed by an Under-Secretary. He and his immediate deputies are not specially trained financial experts but drawn from the general Administrative and Executive Classes of the Civil Service.

The Treasury occupies a pre-eminent place among the departments of the central government. It is responsible to Parliament, through the Chancellor of the Exchequer, for the finances of the central government. Its functions are not limited to the raising of revenue but extend equally to the control of expenditure which is not, as in many other countries, assigned to a different government department. The Supply Divisions are especially concerned with the supervision of expenditure by other government departments. Other Divisions of the Treasury deal with economic affairs generally and with the government's financial and monetary policy. A special Establishments Division handles matters relating to the civil service and controls the staffing of other government departments.

Financing

The cardinal principle of British government finance is that no

revenue shall be levied or expenditure incurred except as authorized by Parliament on the proposal of a minister of the Crown. The government must obtain Parliament's consent both to raise money and again to spend it. Taxes may be levied only as authorized by legislation or, temporarily, by financial resolutions. Most taxes are enacted for an indefinite period, but the income tax only is authorized for a year at a time. An annual Finance Act is passed to reimpose the income tax and give effect to changes in any other form of taxation.

Parliamentary control of expenditure rests on the rule that all revenue should be paid into a single account—the Exchequer—from which all government expenditure must be met. Some exceptions are made in the case of statutory funds such as the National Insurance Funds, and certain direct receipts in the ordinary course of business, such as charges for services to the public which departments are authorized to retain for their own use, thus reducing their own demands on the Exchequer. In general, however, Parliament keeps check on the amounts and purposes of government expenditure by controlling issues from the Exchequer to meet it.

The Exchequer accounts are divided for budgetary purposes, into 'above the line' and 'below the line' items. 'Below the line' transactions relate to payments, mostly of a capital nature, which Parliament has expressly authorized to be financed by borrowing. Notable examples are loans to local authorities and the nationalized industries. All other expenditure is shown 'above the line' and must be met from revenue. 'Above the line' items include some expenses authorized by permanent legislation, principally interest on the national debt and also some smaller items such as the Queen's Civil List and the salaries of judges. But the largest part is for expenditure on Supply Services which Parliament will authorize for only a year at a time.

In his annual Budget, the Chancellor of the Exchequer presents to Parliament a forecast of proposed expenditure for the coming year and proposals for raising the necessary revenue. Each department's expenditure proposals for Supply Services are presented in a series of more detailed Estimates which Par-

liament is asked to approve. Having made provision for revenue in the Budget Resolutions and the Finance Act, Parliament passes an Appropriation Act to sanction the issue of money from the Exchequer for Supply Services. The issues are authorized for specified purposes as set out in the departments' approved Estimates.

Parliament has arrangements for satisfying itself that the government does not raise or spend money otherwise than has been authorized. In this, they are assisted by the Comptroller and Auditor General, appointed in accordance with the Exchequer and Audit Departments Act, 1866. The Exchequer and Audit Department, which comes under his control, is staffed by civil servants. The Comptroller and Auditor General himself, however, although normally drawn from the top ranks of the Civil Service, is an independent permanent officer of the House, removable only by the Crown on receipt of an address from both Houses of Parliament. His salary, like that of a judge, is a charge on the Consolidated Fund and consequently does not require annual authorization by Parliament. His duties will be described more fully in Chapter VII. As Comptroller, he is responsible for seeing that no money is issued from the Exchequer, unless this has been properly authorized. As Auditor he audits the government's accounts and checks that all expenditure has been properly approved by Parliament. For Supply Services, the departments produce Appropriation Accounts in which their expenditure is shown alongside the approved Estimates. The House of Commons appoints a Select Committee of Public Accounts who, with the assistance of the Comptroller and Auditor General, examine and report to the House on the government's accounts.

Parliament's control of government finance rests upon a system of cash accounts. The Exchequer Accounts and the Estimates and Appropriation Accounts presented to Parliament are statements of actual receipts and payments during the year. Cheques issued but unpaid at the end of the year may be included in the Appropriation Accounts provided that payment is actually made within the first three months of the following financial year. Thus the accounts are virtually confined to cash

transactions during the year, regardless of whether or not they relate to goods supplied or services rendered during the year, or whether they relate to goods and services immediately consumed or to capital transactions.

Cash accounting, although common among central governments, is frequently criticized on the grounds that it does not disclose the true cost of goods and services produced or resources consumed in any given period, as might be done with a system of income and expenditure accounting such as is practised by most commercial undertakings and by many other public bodies, including local authorities and nationalized industries. This would segregate capital from current transactions and show the revenue and expenses accruing in each accounting period as distinct from the cash received and paid. This is already done for the main trading operations of the central government, for which departments have to prepare Trading Accounts on commercial principles in addition to their normal Appropriation Accounts. The Post Office has produced Commercial Accounts each year since 1912–13.

The form and bases of government accounts in Great Britain were reviewed between 1947 and 1950 by a committee appointed by the Treasury to examine the possibility of alterations. After a prolonged study, however, they concluded that the Exchequer Accounts should remain on a cash basis and it was therefore undesirable to alter the cash framework of the Estimates and Appropriation Accounts. This finding was based on the view that government accounts are primarily a record of stewardship of the funds Parliament entrusted to the executive by authorizing issues of cash from the Exchequer. The cash basis, the committee considered, should be retained for accountability purposes because it permitted accounts to be rendered in more precise 'actual' terms than would be possible if they were to be recorded on an income and expenditure basis. At the same time, the committee recognized that, although necessarily less exact than cash accounts, estimates of costs on an income and expenditure basis are frequently desirable for guidance in shaping and executing policy. They recommended that the cash accounts should be supplemented by commercial-type accounts for all trading

services and by the extension of costing systems wherever feasible.[1]

Controversy over methods of government accounting still continues but it would be beyond the scope of this study to re-examine all the ground covered by the Treasury committee. The object here will be to see how the present accounting systems have affected the methods of budgeting in the central government and the ways in which it can assist in the settling and execution of policy.

THE HOSPITAL SERVICE

Organization

The hospital and specialist consultant services under the National Health Service are administered by especially constituted statutory bodies under the general guidance and supervision of the Ministry of Health and the Department of Health for Scotland. All hospital authorities are composed of part-time, unpaid members, including both representatives of the medical and nursing professions and a substantial 'lay' element.

In England and Wales the thirty-six teaching hospitals are each administered separately by their own Boards of Governors. All the other hospitals—about 3,000 in all—are administered through a two-tier structure of fifteen Regional Hospital Boards and nearly 400 Hospital Management Committees. The Minister of Health appoints the chairman and members of the Regional Hospital Boards and Boards of Governors, and the chairman and members of Hospital Management Committees are appointed by the Regional Boards. In Scotland there are five Regional Hospital Boards appointed by the Secretary of State, and eighty-four Boards of Management appointed by the Regional Boards. The Scottish teaching hospitals are administered through Regional Boards and Boards of Management in the same way as non-teaching hospitals.

Regional Hospital Boards are responsible for planning and co-ordinating the hospital and specialist services in their Region

[1] *Final Report of the Committee on the Form of Government Accounts*, Cmd. 7969/1950, pp.10-12, 57-58.

and generally supervising the administration of these services. Their main functions, in England and Wales, are:

(*a*) to appoint Hospital Management Committees;
(*b*) to appoint and pay senior medical and dental staff;
(*c*) to run the blood transfusion and mass radiography services;
(*d*) to prepare and carry out programmes of capital works for all hospitals in the Region;
(*e*) to allocate funds for hospital running expenses to Management Committees in the Region and to approve Management Committees' Estimates.

Hospital Management Committees are entrusted with the day-to-day running of a hospital or Group of hospitals, under the general guidance of the Regional Board. Boards of Governors are directly responsible to the Minister for the management and control of their hospitals. Scottish Regional Boards and Boards of Management have functions similar to those of the Regional Boards and Management Committees in England and Wales.

Financing

Hospital authorities derive only a very small part of their income from direct charges for services rendered or from gifts and endowments. Otherwise, the cost of the service is met from the Exchequer out of moneys provided by Parliament through the normal annual Estimates procedure for Supply Services. Parliament votes money to the Ministry of Health, out of which they make annual allocations to the Regional Boards and Boards of Governors, and the Regional Boards in turn make allocations to the Hospital Management Committees and Boards of Management. The Ministry are accountable to Parliament for their total expenditure on the service. Hospital authorities have to prepare annual accounts in a form prescribed by the minister. These have to be submitted to the Ministry and a summary is laid before Parliament and published.

Hospital authorities' accounts, unlike those of government departments, are on an income and expenditure basis. Their

annual allocations are also expressed in terms of income and expenditure, even though Parliament votes the money to meet them on the basis of cash Estimates. Separate allocations are made for capital and current expenditure. The distinction does not correspond exactly to the usual accountancy definition of capital and revenue, but is governed by rules laid down by the Ministry. Replacements of furniture and equipment in existing buildings, for example, are treated as running expenses. Hospital authorities' balance sheets do not make provision for the valuation of fixed assets nor take account of depreciation.

LOCAL AUTHORITIES

Activities

Local authorities in Great Britain operate a wide range of public services. The largest, in terms of expenditure, are education and housing, followed at some distance by health services, street cleansing and refuse disposal, the upkeep of highways, and police. Other important local authority functions include provision for the protection of children; care of the aged, handicapped and homeless; civil defence; fire services; street lighting; and public libraries. Many local authorities also run trading undertakings, the most common being road passenger transport services, water supply, harbours, docks and piers, and markets and slaughter-houses.

Organization

The leading principle of British local government is:

> 'that the local authorities are responsible bodies competent to discharge their functions and that though they may be the statutory bodies through which Government policy is given effect and operate to a large extent with Government money, they exercise their responsibilities in their own right, not ordinarily as agents of Government Departments'.[1]

The supreme power is vested in an elected local council who are

[1] *First Report of the Local Government Manpower Committee*, 1st Report, Cmd. 7870/1950, p. 6.

neither the creature nor the agent of the central government and enjoy a substantial measure of autonomy in the administration of local services. Their precise powers vary, both between different types of authority and, to a lesser extent, between different councils of the same type.

Altogether there are over 2,000 local councils in England and Wales. Most of the country has a two-tier system of local government, administrative counties and county districts. There are sixty-one county councils and 1,355 second-tier authorities: 309 non-county boroughs, 571 urban districts and 476 rural districts. Rural districts are further subdivided into parishes whose councils have very limited administrative functions.

The largest cities and many medium sized towns—eighty-three in all—are excluded from the two-tier system. They come under 'all-purpose' county borough councils exercising all the functions elsewhere divided between counties and country districts. London has a special two-tier arrangement. The London County Council, with powers differing from those of an ordinary administrative county, has authority over the whole area. The Corporation of the City of London and the twenty-eight Metropolitan Borough Councils constitute the second tier authorities with certain independent powers within their respective districts.

In Scotland the four largest towns are 'counties of cities' with 'all-purpose' councils similar to the English county boroughs. The rest of the country has a two-tier system, though this is not so fully developed as in England and Wales. There are thirty-four county councils and, as second tier authorities, twenty large burghs, and numerous small burghs and county districts.

The size of the council varies from a dozen or less in some small county districts to approaching 150 in large county boroughs. The council is both the local legislature with power to make by-laws consistent with the law of the country, and also the local executive. Its executive functions are carried out through committees, which sometimes include persons other than members of the council. Each committee is concerned with particular services or activities such as Education, Libraries or Supplies. The committees are served by departments of full-

time permanent officials. Unlike many local authorities in other countries, no British council has a single appointed or elected 'chief executive' with authority over the whole range of local activities.

Finance therefore provides one of the main connecting links between the various services. Almost invariably the council appoint a finance committee who have general oversight over the financial implications of all local policies and services. Financial procedures are often laid down in local standing orders or financial regulations, but there is much variety in the precise arrangements adopted by different authorities and the extent to which they are formally prescribed in writing. The finance committee is served by a finance department headed by a professionally qualified accountant. In England and Wales the Local Government Act, 1958, requires that 'every local authority shall make safe and efficient arrangements for the receipt of moneys paid to them and the issue of moneys payable by them and those arrangements shall be carried out under the supervision of the treasurer'. In a few small authorities the treasurer is the manager of the bank where the council keeps its accounts. Nearly always, however, the 'treasurer' is the chief financial officer, and the term has been used in this sense throughout this book. The London County Council is governed by separate legislation, whereby the bank itself is the treasurer and the chief financial officer is known as the Comptroller of the Council. Scottish counties also have a permanent finance officer as 'county treasurer', but the burghs have a different nomenclature. The chairman of the finance committee is the 'honorary treasurer' and the chief finance officer is known as the 'chamberlain'.

Financing

Local authorities in Great Britain keep their accounts on an income and expenditure basis, much more akin to commercial practice than to the cash system of the central government. Unlike hospital authorities, they not only separate capital from current transactions, but also keep full balance sheets recording all their capital assets and liabilities and make provision in their

revenue accounts for interest and repayment of loans raised to meet capital expenditure.

The greater part of local authorities' expenditure on revenue account is not recovered from direct charges for services rendered but met from a general pool of revenue known as the Rate Fund. A considerable proportion of the income of this fund comes from government grants, which in recent years have amounted to over two-fifths of all local authority expenditure. A further fifth is derived from fees, rents, recoupments and similar direct charges for services rendered. The remainder has to be provided from local taxation. British local authorites have no choice as to the form these taxes shall take:

> 'Local authorities can levy only such taxes as they are authorized by Parliament to levy. In fact, the only tax which Parliament has given them power to levy for the general financial needs of the district, is the tax on the occupation of land and buildings which is known as "rating". Local authorities have the power to levy whatever rates are necessary to meet their liabilities.'[1]

County councils in England and Wales do not themselves levy rates but issue precepts to the county districts, who in fixing their own rates, must include the amounts demanded as precepts by the county council. Scottish county councils issue 'requisitions' to large and small burghs and themselves levy rates over the rest of the county. All local authorities are required by statute to levy rates or issue precepts or requisitions each year sufficient to cover their expenditure on revenue account and to provide a working balance. In principle, this means that they cannot plan to carry over surpluses or deficits from year to year. In practice, however, they are allowed a considerable margin of flexibility through the statutory provision for a working balance, through powers to accumulate reserves for certain specified purposes, and through special funds for spreading the cost of such items as repairs and maintenance where the amount spent is liable to fluctuate from year to year.

[1] *New Sources of Local Revenue*, Report of a Study Group of the Royal Institute of Public Administration (1956), p. 23.

The finances of local authority trading undertakings are kept separate from the Rate Fund. Each has its own income and expenditure accounts, from which can be seen how far they are succeeding in paying their way. Separate accounts are also kept for some other services, notably housing, in order that any subsidies from the Rate Fund should be clearly shown.

Local authorities' capital expenditure is mainly financed by borrowing. Some capital items, however, are often financed from current revenue and appear in the Rate Fund accounts. Most borrowing is from external sources by means of mortgages and issues of stock. Some capital money can be borrowed internally from superannuation or other funds held by the authority. Any project to be financed by borrowing must first receive a loan sanction from the appropriate government department. This will authorize the council to borrow a stated amount, to be repaid over a stipulated period. An annual provision for 'loan charges', to cover the interest and repayment instalments will then appear in the revenue accounts for the service in question. Most sizeable authorities have some form of Loans Pool or Consolidated Loans Fund, so that they need not actually raise a separate loan in respect of each sanction.

THE NATIONALIZED INDUSTRIES

Activities

State ownership of industrial and commercial undertakings is by no means entirely a recent innovation in Great Britain. One major state-owned trading undertaking, the Post Office, has been in existence for over four centuries. This, however, is run as an ordinary government department. The Port of London Authority, created in 1908, was the first of many public enterprises to be given the more autonomous form of organization now known as a public corporation. It was followed in the inter-war years by the Electricity Commission, the Central Electricity Board and the London Passenger Transport Board, which were later superseded by other nationalized boards. The British Broadcasting Corporation was established in 1926, British Overseas Airways Corporation 1939, and the North of Scotland

Hydro-Electric Board in 1943. A much greater expansion of the public sector in industry occurred after the Second World War, with the nationalization of the Bank of England, the coal-mining industry, and much of the inland transport system and civil aviation, gas and electricity supply and the iron and steel industry. Most of the iron and steel and part of the road haulage undertakings have since been returned to private ownership. The exploitation of atomic energy has from the start been carried on as a public enterprise, originally run by government departments and since 1954 by the Atomic Energy Authority. This, though a public corporation, has less independence than the other nationalized industries, especially in its financial arrangements.

The Coal Industry Nationalization Act, 1946, brought the coal mining industry into public ownership and created the National Coal Board which became responsible for the management and development of the coal mining industry and for coal supplies. Coal mining is carried out at some 900 collieries organized in nine Divisions, eight of which are sub-divided into forty-eight Areas. There is a separate marketing organization, for which the country is divided into nine Sales Regions.

The British Transport Commission, established in 1947, operate the railways, the London Transport system, long-distance road haulage services, docks and inland waterways, a group of hotels and—through subsidiary companies—a large number of provincial road passenger transport undertakings. The railways form by far the largest part of the undertaking, accounting for about 70 per cent of the annual income. They are now organized on a regional basis under six Area Boards appointed by the Commission.

The electricity supply industry was brought into complete national ownership by the Electricity Act, 1947. The present organization of the industry in England and Wales, as modified by the Electricity Act, 1957, comprises a Central Electricity Generating Board to manage the power stations and the main transmission of electricity through the National Grid; twelve area electricity boards responsible for the retail distribution of electricity to consumers; and an Electricity Council as a con-

sultative and co-ordinating body for the industry as a whole. Until 1958 the functions of the Generating Board and the Electricity Council were exercised by a single public corporation, known first as the British and after 1954 as the Central Electricity Authority. Under the Generating Board, there are some 260 power stations, organized in eleven Generating Divisions which in turn are grouped into five Regions under Regional Directors; the construction of new power stations is the responsibility of three Project Groups, answerable directly to the Generating Board. Scotland has two entirely separate electricity boards—the North of Scotland Hydo-Electric Board originally created in 1943 and the South of Scotland Electricity Board established in 1955. Each of these is responsible for both the generation of electricity and its distribution to consumers.

Municipal and privately-owned gas undertakings were nationalized by the Gas Act, 1948. This set up twelve area gas boards to undertake the production and distribution of gas and by-products, and a Gas Council to exercise some co-ordinating and necessarily centralized functions in regard to wage negotiations, research, capital developments, and external borrowing.

Under the Air Corporations Act, 1949, the nationalized civil aviation services are divided between two public corporations. British European Airways, established in 1946, operate inland and continental services, and British Overseas Airways Corporation those to destinations outside Europe.

Organization

All the industries nationalized between 1946 and 1950 were organized as public corporations. As such they are corporate bodies with distinct legal personality and not considered part of the central government. Though created to operate a particular service in the public interest, they are intended to be free from detailed ministerial and parliamentary control and have a wide measure of independence in the management of their undertakings.

Each corporation has a governing board which includes both full-time and part-time members who are all appointed for a definite term of years by the minister who has been given certain

specific statutory powers over the board—notably in regard to capital development and borrowing. The minister also has power to give the boards 'directions of a general character . . . in relation to matters appearing to the minister to affect the national interest'.[1] Although this power has been very little used, its existence has an important influence on the general relationship between their minister and the board and strengthens his position in informal discussions and consultations. The minister is not, however, intended to interfere in detail with the day-to-day running of the industry for which he does not hold himself accountable to Parliament.

Parliament has debarred itself from considering matters of day-to-day administration in the nationalized industries, as distinct from major issues affecting the national interest. This does not of course limit the practice whereby individual members can and frequently do communicate direct with the boards on questions of day-to-day administration. Both Houses are kept informed of the affairs of each industry through their annual reports and accounts, which have to be presented to the minister and laid before Parliament. White papers on the programmes and performance of the nationalized industries, particularly in the field of capital investment, are also presented to Parliament, either annually or when they are seeking statutory powers to borrow money. In the House of Commons three days of each session are customarily set aside for general debates on the annual reports. Since 1956–57 the Commons have also set up each session a small Select Committee on Nationalized Industries (Reports and Accounts) with power to examine their reports and accounts and obtain further written and oral evidence. This is intended to help members to 'inform themselves about the activities of the nationalized industries without taking upon themselves responsibilities which properly belong to Ministers of the Crown or encroaching on the independence of enterprises which are and must remain fundamentally commercial in character'.[2] The Committee have adopted the pro-

[1] Coal Industry Nationalization Act, 1946, S.3(1): similar provisions were inserted in the other nationalization statutes.

[2] R. A. Butler, *Parliamentary Debates*, H.C., Nov. 29 1956, Vol. 561, Col. 590.

cedure of examining the various industries one at a time, beginning with the Scottish electricity boards and the National Coal Board.

Financing

The financial autonomy of the British nationalized industries is reflected in the fact that they are not included in the Budget of the central government. They do not have to present estimates of income and expenditure for approval by Parliament. Their accounts are not audited by the Comptroller and Auditor General but by professional auditors appointed by the minister. An annual statement of the accounts has to be presented to the minister and laid before Parliament, together with the auditor's report.

The published accounts must be in 'a form which shall conform with the best commercial standards'.[1] Separate operating and financial results have to be shown for each main activity of the board.[2] These statutory obligations determined the form of the boards' internal accounting systems. The precise form agreed for each industry is laid down by ministerial direction and comprises summary revenue and net revenue, or trading and profit and loss accounts, and a balance sheet. Their contents are analysed in more detail in extensive supporting schedules.

As trading undertakings, the nationalized industries have a statutory duty to pay their own way. The Coal Industry Nationalization Act states that 'the policy of the Board shall be directed to securing, consistently with the proper discharge of their duties . . . that the revenues of the Board shall be not less than sufficient for meeting all their outgoings properly chargeable to revenue account . . . on an average of good and bad years'.[3] Similar obligations have been imposed on the other nationalized industries. They do not, however, enjoy unlimited freedom to fix their own prices according to commercial con-

[1] Coal Industry Nationalization Act, 1946, S.31(1); Electricity Act, 1947, S.46(1); Gas Act, 1948, S.50(1); Air Corporations Act, 1949, S.22(1).

[2] Coal Industry Nationalization Act, 1946, S.31(1); Transport Act, 1947, S.94(2); Electricity Act, 1947, S.46(2); Gas Act, 1948, S.50(2); Air Corporations Act, 1949, S.22(1).

[3] Coal Industry Nationalization Act, 1946, S.1(4).

siderations. The British Transport Commission cannot alter their railway or London passenger transport charges schemes without reference to the Transport Tribunal, an independent statutory body who hold inquiries on judicial lines into the Commission's proposals. For the other nationalized industries there are no corresponding tribunals. The National Coal Board, however, assumed from the former colliery owners a 'Gentleman's Agreement' not to increase the general level of coal prices without the agreement of the Minister of Power. The gas and area electricity boards have a statutory obligation not to alter their tariffs without reference to the consultative council representing consumers in their area. The air corporations have no power to alter their fares to achieve a break-even financial result since these are determined by international agreements through the International Air Transport Association.

Capital expenditure in the nationalized industries is financed from internal sources, mainly depreciation provisions, or by borrowing. The gas and electricity industries, the British Transport Commission and the airways corporations were given power to borrow by issuing stock which could be—and in fact always was—guaranteed by the Treasury. Since 1956, this method of borrowing has been temporarily replaced by direct advances from the Exchequer, which have always been the source of borrowing for the National Coal Board.

The Atomic Energy Authority have a different method of financing, more akin to that of a government department. They are not expected in the foreseeable future to make their activities financially self-supporting. Sales to the public of radio-active isotopes provide only a small proportion of the annual income. Most of their funds, for both capital and current expenditure, come from money voted annually by Parliament to the appropriate minister, who is empowered to pay over to the Authority such sums as he may, with the consent of the Treasury, determine. The accounts of the Authority are subject to audit by the Comptroller and Auditor General who reports thereon to Parliament. A member of the minister's staff acts as Accounting officer for the Vote from which grants are made to the Authority, and is liable to be examined by the Public Accounts Committee

along with the Chairman and the member responsible for finance, by whom the Authority's accounts are signed.

THE SIZE OF THE UNDERTAKINGS

The size of an undertaking has an important influence on its approach to budgeting—as indeed to every process of management and decision making. The larger the undertakings, the more selective top management must be in the matters to which they give attention, either in deciding policy or keeping check on how it is carried out, and the more they will require formalized procedures to assist them in decision making and supervision of their subordinates.

Before trying to compare their budgetary arrangements, it is therefore important to be clear as to the relative size of the authorities concerned. This can most conveniently be measured in terms of their annual expenditure. Different accounting systems and financial years make it impossible to produce figures for all public authorities on the same basis, but enough is known to give a fair indication of their relative magnitude.

In 1956–57, the total expenditure of the central government as shown in the accounts of Exchequer issues, amounted to £5,704 million, including 'below the line' payments of £836 million. The Appropriation Accounts of the civil and revenue departments showed their aggregate gross expenditure in the same year as £3,367 million. The following table shows the main departments contributing to this total:

Gross Expenditure in 1956–57 (*£ million*)[1]

Ministry of Health	578·8
Post Office	432·3
Ministry of Education	345·5
Ministry of Pensions and National Insurance	336·0
Ministry of Agriculture, Fisheries and Food	288·0
Ministry of Housing and Local Government	158·7
National Assistance Board	131·2

[1] *Civil Appropriation Accounts and Revenue Departments' Appropriation Accounts, 1956-57*. H.C. 1957-58/39, 40 and 15.

Home Office	74·5
Ministry of Transport and Civil Aviation	71·0
Ministry of Works	50·4
Colonial Office	43·4
Foreign Office	42·7
Inland Revenue	39·8
Ministry of Labour and National Service	24·5
Board of Trade	20·3
Customs and Excise	16·5
Commonwealth Relations Office	13·7
Ministry of Power	10·4

These figures show gross expenditure on a cash basis, including both current expenses and, in departments where it arises, capital expenditure as well. The cost of work undertaken on a repayment basis is not, however, attributed to the department carrying out the work. Thus the Ministry of Works actually spent another £41 million on repayment services for other government departments or public bodies, most of which appears in the accounts of some other government department. In the figure for the Post Office, capital expenditure financed from loan has been added to that shown in the Appropriation Accounts in order to make it comparable with the other departments.

Other public authorities can be compared in terms of their annual expenditure on revenue account. The following table indicates the relative size of different kinds of authority and the range of sizes within each group. A figure for Post Office current expenditure from the Commercial Accounts has also been included:

Annual Expenditure on Revenue Account (£ million)[1]

*National Coal Board	942·6
*British Transport Commission	831·1
Electricity Supply (England and Wales)	457·9

[1] Sources: for nationalized industries—*Annual Reports and Accounts* of the boards; for hospital service—figures supplied by Ministry of Health; for local authorities—Society of County Treasurers, *Financial and General Statistics of County Councils, 1956-57; Local Government Financial Statistics, 1955-6;* London County Council, *Accounts in Abstract, 1956-57.*

Gas Council and Gas Boards	385·8
†Post Office	359·4
Hospital Service (England and Wales)	343·1
†London County Council	92·9
Largest Gas Board (North Thames)	71·2
Largest Area Electricity Board (London)	60·0
British Overseas Airways Corporation	56·2
†Largest Local Authority in Scotland (Glasgow)	51·5
Largest Hospital Region (SW Metropolitan)	38·8
†Largest County Council (Middlesex)	38·3
*South of Scotland Electricity Board	35·9
British European Airways	27·3
Smallest Electricity Board (South Western)	20·6
*North of Scotland Hydro-Electric Board	11·8
Smallest Gas Board (Wales)	9·8
†Average County Council	8·5
Smallest Hospital Region (East Anglia)	8·0
‡Average County Borough	7·0
‡Average Metropolitan Borough	1·0
Average Hospital Management Committee	0·7
†Smallest County Council (Rutland)	0·6
‡Average Non-County Borough	0·4
‡Average Urban District	0·1
‡Average Rural District	0·1

(* 1957; † 1956-57; ‡ 1955-56; all other figures are for 1957–58.)

This comparison emphasizes the immense size of the larger government departments and the nationalized industries. Local authorities with some conspicuous exceptions, are on the average much smaller than the other units. They would be more nearly comparable with individual Hospital Management Committees, the larger of which spend £1½ million to £2 million a year.

The figures may be seen in better perspective if compared with some large organizations in the private sector. In 1958 there were estimated to be twenty-eight industrial companies in Great Britain whose annual sales exceeded £100 million.

These were headed by two Anglo-Dutch companies, Royal Dutch Shell and Unilever, with turnovers of £2,635 million and £1,220 million respectively. The largest wholly-British company was British Petroleum, in which a majority of the shares are state-owned, with a turnover of £793 million. Two other companies—Imperial Tobacco and British American Tobacco—had turnovers exceeding £500 million. Annual sales of £100 million or more were recorded in another twenty-three companies, mostly in the motor and aircraft, electrical equipment, iron and steel, chemical and food products industries.[1] Thus the leading companies in these branches of the private sector face problems of large-scale organization of the same magnitude as confronting public authorities. None, however, approaches the size of the central government taken as a whole and very few are equal to that of the National Coal Board, the British Transport Commission or the Post Office.

CONCLUSION

This chapter has examined the scope and environment of the public sector in order to identify the organizational and other factors likely to influence the budgetary practices of different kinds of public authorities. Points of especial relevance to be borne in mind in the succeeding chapters are (1) the relative significance of 'the public interest' however interpreted, as opposed to the profit motive and financial criteria of success; (2) the character of the activities undertaken, whether trading operations, social welfare services or other administrative functions; (3) the form of organization, as regards both internal organization and relations with higher authorities; (4) the system of financing, including the main sources of income and the method of accounting for transactions; and (5) the size of the undertaking to be run as a unified concern.

[1] *The Fortune Directory* (New York, August 1958) pp. 21-22.

CHAPTER III

THE REVENUE BUDGET: CHARACTER AND PURPOSES

IN examining the different kinds of budget in use, it is appropriate to give most attention to the revenue budget. For most public authorities, income and expenditure on revenue account are invariably far greater than their capital income and outlays in any given period. Although capital items may raise important issues, these are usually discussed and decided individually on separate occasions. Revenue budgets, however, consist to a large extent of recurrent items, representing services and charges which might otherwise be continued indefinitely without coming under any regular scrutiny and review. Moreover, in a revenue budget the implication is that the goods and services procured should yield their full benefits within the same accounting period. In practice there are usually some carry-overs, but these are seldom of major significance. The relationship between the two sides of the revenue budget is thus of special significance as a measure of the benefits to be derived from proposed outlays. The size, the recurrent character and the economic significance of the transactions involved therefore give the revenue budget especial importance as an instrument for settling policy and controlling its execution.

The central government of Great Britain has no distinct revenue budget, since the national Budget includes both capital and current items recorded on a cash basis. For Supply Services, however, the annual Estimates for each department normally segregate capital and current expenses into separate Subheads. In this and the following four chapters, therefore, central government budgeting is considered as it bears upon departments' 'current expenses', leaving the question of their capital expenditure for discussion at a later stage. The other groups of public

authorities have income and expenditure accounting systems, so that although the nomenclature varies, there is no difficulty in identifying which budgets refer to transactions on revenue account.

REASONS FOR A REVENUE BUDGET

A single budget can often be made to serve several distinct purposes. These will be examined separately in order to show the potentialities of budgeting and the motives which have led to its adoption. But the different purposes are by no means mutually exclusive although their relative importance varies.

(*a*) *Fixing Revenue and Expenditure*

In a non-trading public authority the immediately compelling reason for a revenue budget is to see that its income will be sufficient to meet its expenditure over the given period. The budget is considered, first, as a forecast of what expenditure will be necessary or desirable; secondly, as a plan to secure the right relationship between income and expenditure; and finally, as an authorization to raise and spend the amounts specified. When the main source of income is taxation, the authority decides at regular intervals—usually once a year—how much revenue it needs over the ensuing period, and then imposes rates and taxes calculated to bring in the desired amount. Once these are fixed, its income for the period is virtually settled.

If the budget is to be a plan for raising revenue, it must begin with plans of expenditure in order to show what expenses will have to be met. This is not simply a matter of deciding what one would like to spend on each service, adding it up, and asking the public to meet the bill. Public authorities, like private individuals, are very seldom in a position to spend all that they would like to. They must also consider the difficulties of paying for it. This involves estimating the yield of different taxes and other sources of revenue; studying the economic and political effects of different forms and levels of taxation; and trying to judge whether the public would prefer to pay more for better public services or to keep the extra money to spend or save as

they wish. The authority must also weigh the claims of different services on the limited funds at their disposal, and decide how they should be allocated to give the greatest total benefits —whether, for example, they should spend more on developing guided missiles or on increasing the Forces' pay, or whether to employ fewer home helps so as to be able to afford more books for the public library.

The budget is thus drawn up as a plan fixing the total amount to be raised and spent and dividing it between departments and services in the way which will best fulfil the wishes and interests of the community. Income, in the form of rates and taxes, will mostly be firmly settled from the moment that the budget becomes operative. The expenditure estimates, although considered before the proposals for raising revenue, have to remain more flexible, in so far as there will in all probability have to be some departures from the original plan to allow for unforeseen changes in wage and prices, urgent new needs or delays in carrying out what was planned. The expenditure side of the budget is nevertheless a carefully considered plan, formally approved at the same time as the agreed taxes are imposed. It then becomes binding on the spenders, who are not allowed to depart from it without special authorization.

Local authorities' annual Rate Estimates are a clear instance of budgets primarily intended to fix income and expenditure. As the name indicates, their main purpose is to determine the rates, which in Britain are the only tax a local authority can impose. The law requires local authorities to levy a rate each year at a level calculated to cover their estimated expenditure on revenue account during that year. Estimates of expenditure and income from direct charges are prepared annually for each Rate Fund department. These are brought together and revised as necessary until the total, after deducting government grants and income from other sources, appears a reasonable and expedient sum to demand from the ratepayers. The council then 'make' the rate at the appropriate level and approve the Rate Estimates as the amounts and purposes for which expenditure may be incurred.

Budgeting in the central government is likewise aimed at

fixing income and expenditure so as to secure the right relationship between the two. The level and forms of taxation for the year ahead are set out in the Chancellor of the Exchequer's annual Budget Proposals, given statutory force by Budget Resolutions approved by Parliament on Budget Day and later confirmed in the Finance Act. Tax changes during the year are never completely ruled out and in some cases, such as purchase tax, can be made without amending legislation. Sometimes a second Budget is introduced later in the year to meet changed circumstances, especially in time of war or economic crises. But the imposition of taxes on an annual basis remains a very long standing principle of the British constitution, upon which parliamentary procedure and administrative practice are founded. Spending plans are also drawn up for a year at a time, in annual Estimates for each department. Once approved by Parliament, these become the authorized pattern of spending for the year.

(*b*) *Planning to Spend a Fixed Amount*

When a public authority finances many different activities from a central pool of revenue, it cannot decide what should be spent on each service without considering all the other claims on its income. This can only be done by those in a position to review the whole field of public needs and obligations. In Great Britain this means the Cabinet or the Treasury in the central government and the council and the finance committee in a local authority.

Consequently, each separate service and department has to work within a fixed income assigned to it by some higher authority. Its final budget is drawn up as a plan for spending this amount to the best advantage. Before its allocation is settled, however, it may have to submit an earlier budget for use in determining what the allocation ought to be. This will not have to be contained within any pre-ordained ceiling, but is intended as a reasonable estimate of what seems necessary or desirable during the period in question. How far the actual allocation corresponds to the first budget depends on how far higher authorities consider the latter to be a reasonable estimate of what is required, having regard to the claims of

other authorities and services on the limited resources available.

This approach to budgeting is very clearly illustrated in the hospital service. Hospital authorities are asked for Forecasts of their expenditure on hospital running costs for the coming year. The Health Departments make lump sum Allocations to the Hospital Boards, and the Regional Boards in turn make Allocations to the Hospital Management Committees. Each Committee then have to prepare annual Estimates, in a form prescribed by the Ministry, for approval by the Regional Board as their spending plan for the year. Regional Boards, and Boards of Governors must likewise prepare Estimates of their own expenditure, and these have to be approved by the Ministry. In this way each hospital authority has to prepare two separate budgets for each financial year—a Forecast to guide higher authorities in determining their Allocation, and Estimates showing how they propose to spend the Allocation actually received. There is also an opportunity to submit a third, revised, budget within the authorized total, halfway through the financial year.

In subordinate services or departments of other authorities there is a similar distinction between the original 'asking figure' put forward by the spenders, and the final 'budget' or 'estimates' of what they are actually allowed to spend. In local authorities and government departments the final budgets are often arrived at through informal discussion and *ad hoc* cuts in the 'asking figures' rather than by a formal system of Forecasts, Allocations and Estimates. But for individual spenders the process is essentially the same as in the hospital service, with each individual spender first saying what he thinks ought to be spent on his service, and then stating how he plans to use whatever amount higher authorities decide to allow.

Much the same use of budgets as spending plans is encountered in some branches of industrial undertakings. In the case of research or publicity for example, the level of activity is not immediately dictated by demand. A balance has to be struck between what the scientists or the advertising manager would like to do and how much of this higher management thinks the business can afford. Their original proposals are trimmed down to produce a research or advertising budget which is essentially

a plan to make the best use of limited resources. The same is true of budgets for any other type of expenditure, such as training and welfare, where the demand does not arise from outside the industry.

(c) *Deciding Future Policy*

Questions of policy are certain to be raised in fixing income and expenditure or planning the use of limited resources. But even when it does not fix any definite plan of income or expenditure, a budget may still be valuable as a forecast of future prospects for guidance in settling policy or other issues. In a trading undertaking, the budget provides an indication of expected results which can be of great value in settling or reviewing price policy to ensure profitability or in planning output to correspond with the probable demand. Prominent examples of this use of budgets are found in the nationalized industries, including the Tariff Estimates of the Central Electricity Generating Board, the area electricity boards' Trading Estimates, the National Coal Board's annual Forecasts of output, manpower and financial results, and the annual revenue budgets of the gas boards and the airways corporations.

(d) *Setting Standards of Efficiency*

A budget for any purpose should be drawn up on the assumption that a reasonable standard of efficiency is attained. It is thus a yardstick of the results to be expected if the undertaking is operating efficiently. Efficiency is essentially a matter of the relationship between the quantities of manpower, materials and energy consumed and amount of goods and services produced.

A fixed annual budget can only be an appropriate yardstick if these quantities of input and output can be firmly planned or predicted when the budget is prepared. Otherwise some form of flexible budgeting is needed to determine the costs and proceeds which ought to be expected at different levels of output. Expenses must be divided into fixed costs and variable costs according to whether they vary directly in proportion to output, so that the budget provision for variable costs can be adjusted according to the output achieved. Where the product is reason-

ably homogeneous, standard costing methods may be used to agree on the fixed and variable costs per unit of output from which the budget provisions should be calculated. The National Coal Board are developing standard costing for colliery operations, and intend to relate these standards to their operational expenditure budgets. British Overseas Airways Corporation have for some years based their budgetary control on a 'standard cost per flight' for each route. This is arrived at by assessing the total departmental expenditure necessary, and dividing it over the planned number of flights to arrive at a 'standard cost per flight' for each service. These 'standard costs' are then used in adjusting the budget to the level of activity actually attained.

Another alternative is to exclude from the budget items on which uncontrollable variations are likely to arise. Thus the revenue budgets of electricity Generation Divisions do not initially include any provision for expenditure due to breakdowns or other emergencies which have not yet occurred. Expenditure for these purposes can be incurred if necessary outside the total expenditure authorized in the budget and is then allowed for in the next of the periodical revisions of the initial budget. Area electricity boards exclude from their Revenue Expenditure Budgets not only emergency repairs but also payments to the Generating Board for bulk supplies of electricity. These actually account for more than two-thirds of their total expenditure, but have to be reckoned as uncontrollable since they depend entirely on consumer demand and the Bulk Supply Tariff.

In non-trading activities, flexible budgeting for different levels of output is seldom attempted owing to the diversity of activities undertaken and the difficulty of measuring the product of any one of them. This is especially true of preventative, administrative and cultural services, as opposed to building and engineering operations. On the other hand, the level of activity in such services can usually be more firmly estimated when the budget is prepared. The budget can therefore be regarded as a yardstick of what costs and proceeds ought to be if the undertaking adheres to the programme of work on which its budget was based.

THE UNDERLYING PROGRAMME OF WORK

Whatever its primary purpose, the budget should be conceived as a programme of work to be done or goods and services to be produced in order to fulfil the objects of the organization, and of the manpower, energy and materials needed to accomplish these objectives. The final estimates are mainly expressed in terms of money, since this alone provides a common unit for measuring all kinds of goods and services. But they will not provide a sound plan, forecast or yardstick unless they are founded on estimates of the work to be done and the manpower, plant and materials needed to perform it.

The alternative is to draw up a financial budget straight away, without looking at the underlying physical needs and plans. This would have to be done on the basis of past income and expenditure. Current trends might be projected forward, and allowance made for the effect of any changes in costs and for running expenses resulting from new capital developments.

This is a dangerous practice, since it provides no opportunity for reviewing variations in the volume of work, inadequate standards of service or inefficiency in operations. The demands on the service may alter from period to period, so that what was the right amount to spend in one year may be too much or too little in the next if the same standard of service is to be maintained. Secondly, even if the amount of work remains constant, there may very well be scope for improvements in the way it is done. It may be desirable to spend more in order to provide a better quality of service—better street lighting, for example, or better meals for mental hospital patients. Alternatively, it may be that expenditure could well be reduced without lowering standards by improved efficiency—through raising labour productivity or introducing new methods or machinery. It is therefore important to consider how the financial estimates can be related to their physical bases. The following sections describe the principal techniques employed.

(*a*) *Demand*

In trading organizations output follows demand which is often

largely outside the control of the undertaking. The budget must therefore be founded on estimates of sales or demand. These must be drawn up in the light of current trends, the anticipated effects of planned developments in methods of production and distribution, and any likely changes in external circumstances which may affect demand.

The nationalized industries, like private trading concerns, make forecasts of sales as the foundation for their revenue budgets. Area electricity and gas boards decide on the output for which to budget after looking at current trends in demand, the national economic background, local population changes and industrial developments, and seasonal fluctuations in temperatures. In the Central Electricity Generating Board, annual Station Loading Estimates are prepared centrally, following discussions between Grid Control Centres and Divisions, and broken down to give each station a definite load on which to base its plans and estimates for the Revenue Budget. These annual forecasts of demand are usually a more detailed refinement of the longer-range estimates used for planning capital development. The electricity supply industry forecasts demand at the national level for at least ten to fifteen years ahead.

The nationalized fuel and power industries are monopolies with statutory obligations not only to earn sufficient to cover their expenditure, taking one year with another, but also to make supplies available to meet consumer requirements. Hence their sales estimates tend to be more concerned with measuring demand and give rather less consideration than is common in private firms to the relative profitability of producing at different levels of output. A situation more akin to that in competitive private enterprise occurs in the nationalized airlines, which operate against intense international competition and have scope for adjusting the routes and frequencies of their services to suit their own economic interests. British Overseas Airways Corporation base their annual Operational Plan upon the Commercial Department's estimates of how many seats could be sold on the various routes. This is related to the profitability of each route, so that in planning the use of marginal

capacity regard can be had to the pattern of operations likely to produce the best financial result.

In most publicly-owned trading organizations, however, the emphasis is on the obligation to supply the goods and services required, and the demand estimate is near to assuming the role of an imposed assignment. An extreme case of this occurs in the civil aviation ground services operated by the Ministry of Transport and Civil Aviation. These are ultimately intended to be self-supporting, but have so far been heavily subsidized from general taxation until the traffic can bear the full cost. The Ministry's annual Estimates are based on estimates of traffic trends supplied by their Economics Section, and may include services which the traffic warrants on technical and safety grounds, but which would not be economically justified by the estimated revenue from charges to airport users.

Demand is again the overriding limiting factor in other government services, where the public or other authorities have been given a legal right to certain benefits. This leaves little room for adjusting expenditure plans short of enacting new legislation or defaulting from outstanding obligations. Notable examples include National Insurance payments, family allowances, treatment under the National Health Service, and free or subsidized supplies of milk, orange juice and cod liver oil. For National Insurance long-term actuarial forecasts are available for guidance as to the annual claims for which to budget. Otherwise, claims have to be estimated by reference to current trends, with allowance for any changes that appear likely in the year ahead.

(*b*) *Limited Resources*

The decisive limitation on activities in public authorities is very often the resources available. While demand cannot be ignored, the level of activity desired by those running or benefiting from a particular service frequently has to be scaled down to keep within the available money, manpower or supplies.

Sometimes this limitation is formally expressed by laying down a definite financial ceiling within which the budget must be contained. A hospital authority has to draw up its Estimates

within the Allocation notified by the appropriate Ministry or Regional Hospital Board. Local authorities have occasionally adopted a practice known as 'rate rationing', whereby each spending committee are asked to keep their Estimates within a certain figure, expressed as a rate of so many shillings or pence in the pound.

More often, non-trading authorities have to draw up their budgets without any definite indication in advance of how much expenditure can be approved. Government departments and spending committees of local authorities seldom receive more than general exhortations to economize or a brief review of economic prospects or government or council policy. Their budgeting is not restrained by an imposed ceiling, but by their own assessment, in the light of past experience and current policies, of how much spending is likely to be acceptable to the governing body. Ministers' and local spending committees' expenditure proposals are thus subtly but powerfully influenced by their wider interest, as members of the government or Parliament or elected councillors, in restraining their demands upon the public from whom the cost of their services must ultimately be recouped.

In trading undertakings too, resources rather than demand may be the decisive limiting factor. The National Coal Board until 1957 worked on the assumption that they would be able to sell as much coal as they could produce. Their revenue budgets consequently did not start with an estimate of sales but with forecasts of the manpower likely to be available and the output there could be achieved with this labour force.

(c) *Standard Costs*

Estimates of the costs of a given programme are also needed for deciding what can be done with a given quantity of money. Where the demand estimate indicates the output for which to budget, the next stage in budgeting is to reckon what this should cost. Expenditure is most simply estimated where there are already agreed standard costs, stating what each unit of output should cost if the undertaking is working as efficiently as can reasonably be expected. The standard cost multiplied

by the expected demand will then give the desired estimate of expenditure for the budget.

Budgeting based on standard costs does not work quite so simply in practice, however, owing to the existence of fixed overhead costs that do not vary directly with output. There is first the problem of deciding how to spread central changes over different services and departments. Then if the standard cost is worked out on the assumption that the organization is operating to full capacity, the budget must allow for any extra overheads that will not be absorbed in the estimates calculated from the standard costs if output is expected to be less than that attainable at full capacity. The distinction between fixed and variable costs creates special problems in the electricity supply industry where the impossibility of storing the product means that costs of such items as fuel and manpower do not vary directly in proportion to output but are inevitably inflated by the time that has to be spent standing by or operating at less than the optimum capacity. The Generating Board have nevertheless begun to investigate the possibilities of introducing standard costing at their generating stations, with a view to building up their annual estimates for Works Costs from this basis.

Other complications in standard costing arise from the need to alter the standard costs themselves whenever there is any variation in wages and prices, methods of production or external circumstances affecting what the operation ought to cost. This has presented a great problem for the National Coal Board, who have set standard costs for wages and manpower at all their collieries. Because conditions vary so greatly, not only from pit to pit but within the same pit as mining advances, separate standards have to be set for each coal face and must be constantly revised—perhaps several times a year for a single face. The Board's ultimate aim is nevertheless to extend standard costing to all items of expenditure at collieries and to link these standard costs with the annual budgets.

(*d*) *Standards of Performance*

Another method of ensuring that the budget presupposes a

reasonable degree of efficiency is to base the estimates on agreed standards of performance. These, not being expressed in financial terms, avoid the problems of spreading overheads when output varies and of revision to allow for changes in wages and prices.

Standards of performance, expressed as a ratio between the quantities of manpower or materials used and the resulting output, must first be agreed for each operation. It is then possible to calculate the resources needed to produce the output required. The final step is to translate these estimates into money at current or expected wage rates and prices.

In the Central Electricity Generating Board estimates for fuel costs at power stations are based on the production standard known as the 'thermal efficiency'. This is the ratio, expressed as a percentage, between the heat energy content in the fuel consumed and the heat energy in the electricity sent out from the station. The thermal efficiencies used in the budget are not the maximum attainable in the most favourable working conditions but the best that the stations think they can do in the circumstances expected, allowing for time spent standing by or operating at less than full capacity. The agreed thermal efficiency for each station is used in conjunction with the estimated calorific value of the fuel to be supplied to calculate the amount of fuel needed to meet the estimated demand. This in turn is multiplied by the estimated price of fuel to give the fuel cost estimate for the Revenue Budget.

The gas boards have adopted similar methods of budgeting from production standards for each gasworks. The main standards are the quantities of gas and by-products produced for each ton of coal carbonized, and the quantity of other materials used for every ton of coal carbonized or every 1,000 cubic feet of gas made. Allowance is made for losses in efficiency when shortfalls in demand necessitate working at less than optimum capacity. The production standards can then be used to estimate the amount of fuel and other materials required to meet the estimated demand.

The gas and electricity supply industries use standards of performance in budgeting for the largest single element in

operating costs—namely fuel supplies. This is possible because they produce a homogeneous, measurable commodity by processes for which technicians can assess with a high degree of accuracy the ratio of input to output that ought to be attainable. Many other industries can only apply such standards to a far smaller part of their operations. The airways corporations, operating a variety of aircraft over routes of varying lengths, are unable to set common standards embracing all operations. They do, however, set standards wherever possible for individual aircraft types for such items as fuel consumption per hour and passenger service costs per 100 miles. They have also developed very detailed production standards for repetitive engineering operations, and these are used to calculate the engineering maintenance items in their annual revenue budgets. Similarly, one area electricity board which have found their main activities too heterogeneous to set production standards, have installed standards for the largely repetitive work of testing meters.

(*e*) *Standards of Needs*

Different kinds of standards are needed in budgeting when activities are limited by resources rather than demand. The standard is no longer what is needed to produce a certain volume of goods or services, but how much the authority can afford to spend in answering each claim upon the service. The standard establishes a definite ratio between resources and claimants, so that funds can be allocated with regard to the demands upon the service.

This technique can only be used where there are large numbers of approximately equal claims on the same service. Local education authorities for example usually have several thousands of children in their schools who need to be supplied with books, stationery and other educational materials. For this purpose it has become a common practice for education authorities to fix a certain sum of money per child per annum, known as a 'capitation allowance', for each kind of supplies, with different allowances for primary and secondary schools. Capitation allowances are set for indefinite periods and revised from time

to time as prices or circumstances alter. The annual Estimates are calculated by applying the current allowances to the estimated numbers of children in each school.

Many Hospital Management Committees use unit costs in budgeting for costs of food at hospitals. The amount set aside for Provisions in their annual Estimates is not expressed as a fixed sum for each hospital, but as the cost per week per person fed. This usually has to be varied from hospital to hospital to allow for differences in their catering needs. But it means that the amount allowed for each hospital is based on an agreed standard of service to each person using the facility.

Another service that lends itself to the 'cost per head' type of standard is local authorities' housing repairs and maintenance. A uniform rate of expenditure per house per annum can be fixed for each main type of house. The allowance is intended as a reasonable average for that type of housing, sufficient to pay for all essential repairs and a standard of redecoration and maintenance that will keep the property in good condition without making over-extravagant demands on either the tenants or the ratepayers. The budget can then provide for an annual contribution to the housing repairs fund equivalent to the allowance multiplied by the number of houses of each category. Actual expenditure on each house will not be expected to correspond to the allowance every year, though it should do so on the average over a longer period.

(*f*) *Cycles of Maintenance Work*

A different form of standard for repairs and maintenance is the cycle of work, specifying the intervals at which regularly recurring jobs should be undertaken. Numerous examples can be found in the building and engineering fields. The Ministry of Works and many local authorities have cycles for redecorating their offices and other public buildings. Any undertaking with an appreciable amount of engineering plant usually has rules for it to be checked and overhauled at regular intervals. Many such cycles are enforced by some higher authority or even by law. The coal mining, gas and electricity industries are bound by statutory rules to test their plant at prescribed intervals. The

frequency and extent of aircraft overhauls are not left entirely to the discretion of the air corporations as minimum standards are laid down by the Air Registration Board.

When the cycle is enforced by higher authority, the undertaking has no option but to budget for the amount of work it demands. This is relatively simple for those operations, such as aircraft overhauls, where the man hours and equipment employed on each check follows a regular pattern. Very often, however, it is impossible to predict what will have to be done when the plant is overhauled. One piece may need no more than an inspection showing all is well while the next may need many days of repair work and expensive replacements.

Another difficulty can arise when a cycle calls for a higher standard of maintenance than the authorities are able to carry out, owing to shortages of skilled manpower or financial restrictions on their total spending. These would not be allowed to hold up overhauls of plant whose breakdown would be dangerous to health and safety or cause serious disruptions in service to the public. But in other branches of maintenance, such as some redecorations of buildings or resurfacing of minor roads where the risks of delay are not so great, the original estimates based on the maintenance cycles may have to be scaled down to suit the exigencies of the current financial situation.

(*g*) *Programmes of Work*

All the standards described so far can only be applied where either the product or the persons served can be measured in homogeneous units or where there is a regularly recurring pattern of work. Many of the activities of public authorities do not fall into either of these categories. Sometimes their output can hardly be measured at all. There is no common unit for measuring all that is done by the police in maintaining law and order or by the Foreign Service in the conduct of diplomatic relations. Even when it is possible to measure what has been done—for instance how much equipment has been purchased or how many hospital patients treated—the work may not be sufficiently repetitive to set any uniform standards of the resources or expenditure required.

The underlying programme of work on which to base the budget must therefore be drawn up in greater detail. Only by examining each individual item is it possible to decide whether it envisages an efficient and adequate standard of service. The concepts of efficiency and adequacy become much more subjective than in more repetitive activities. The programme of work is not derived from predetermined standards but itself becomes the main standard by which the actual results will be judged.

Programmes of this kind for repairs and maintenance, major purchases and renewals of equipment are familiar in many organizations. Sometimes they are derived from maintenance cycles, scaled down to conform to current limitations on money or resources. Elsewhere they are worked out entirely afresh each year, by asking for individual requests before the beginning of the year, deciding priorities between them, and arranging them in a programme in order of priority up to the limits of the fund, manpower or materials available. A margin has to be left for urgent unforeseeable needs and for very small items that cannot be estimated so far ahead.

This technique of annual programmes is applied by many Hospital Management Committees to their estimates for repairs and maintenance of buildings, domestic repairs and renewals, and major items of medical and surgical appliances. Local authorities use similar repairs and maintenance or purchasing programmes, either for individual spending departments or for council property as a whole. Repairs and maintenance items for all services are sometimes estimated after an annual review of all council property by an architect or engineer, who is responsible for all repairs and maintenance items in the Estimates subsequently presented to the appropriate committees. Another example of programmes for activities of a public works character is the surface dressing programmes which local highway authorities submit to the Ministry of Transport and Civil Aviation in support of their grant claims.

Research is another sphere where expenditure can often be budgeted in terms of a programme of approved projects, work on which in any year is limited either by a predetermined ceiling

on expenditure or by the staff and facilities employed. The National Coal Board, for example, base their annual estimates for research on co-ordinated programmes of work approved by the Board after a broad review of the volume of research undertaken and of priorities between projects. These are issues on which it is difficult to fix any objective criteria owing to the essentially non-repetitive character of the work, the uncertainty as to the outcome of any project, and the fact that a desirable level of activity cannot be directly related to current demand. The problem is especially great as regards the big research projects carried on by non-trading public authorities, whose ultimate benefits, if successful, cannot be measured in terms of the economic advantage to the authority undertaking the investigation.

Even where specific programmes are not established, the absence of other criteria of needs or efficiency necessitates a more detailed review of requirements before budgeting. This explains why the amount of detail in a budget sometimes appears to be in inverse proportion to the amount of money involved. A local authority spending a few hundred thousand pounds may well produce a much more voluminous budget document than a nationalized board spending tens of millions.

(*h*) *Staff Complements or Establishments*

One very important part of any programme of work is the numbers and grades of staff to be employed. This is especially significant in non-trading public authorities, where employees' remuneration frequently accounts for over half and sometimes as much as two-thirds of all current expenditure—a much higher proportion than in most commercial undertakings who usually spend more on materials and capital charges.

Agreed standards of staffing fall into two categories. Where there are many employees engaged in similar work, it is possible to fix staffing ratios relating the numbers required to the amount of work. Local education authorities, for example, have staffing ratios prescribing the number of children per teacher for each type of school. Government departments with many local offices doing highly repetitive work, like the Post Office,

the Ministry of Labour and National Service and the Ministry of Pensions and National Insurance, frequently have staffing standards relating the personnel required to the number of cases handled at each office.

Over a wide field, however, staffing needs can be assessed only by a detailed survey of the requirements of each department and service. The agreed standards then take the form of schedules, commonly known as 'establishments' or 'complements', setting out the numbers and grades of personnel desirable for each function. Detailed supervision of these staffing standards is often entrusted to specialist personnel officers or departments, whose wide experience of staffing questions is thought likely to be more helpful in determining true needs than any attempt to measure work and costs. In government departments, provisions for staff are not the concern of the Finance Divisions who handle other matters relating to expenditure and the Estimates, but of special Establishments Divisions who deal directly with the Establishments Division of the Treasury on staffing matters.

The annual budget for staff depends on the number and grades employed and their rates of pay. The latter are usually determined by negotiations and awards outside the control of those preparing the estimates. The number for which to budget must be consistent with the agreed staffing ratios or establishments. But the budget must be based on the numbers actually likely to be in employment during the year. Allowance must therefore be made for difficulties in recruiting and retaining the numbers indicated by the approved ratios or establishments. This is especially important where establishments are well above the numbers likely to be available, as in the case of scientists in the Civil Service, or nurses and domestic workers in the hospital service.

(*i*) *Fixed Charges*

Some items in the revenue budget cannot be deliberately adjusted on a year-to-year basis. The most immutable are capital charges—interest and depreciation or loan repayments—which represent obligations already incurred in respect of capital investment in previous periods. These do not arise in the annual

Estimates of government departments or of hospital authorities. But loan charges are a substantial item in local authorities' Estimates, especially for such heavily capitalized services as housing and education. They are also a heavy expense in the nationalized industries which, unlike private businesses, have no equity capital and must pay interest at fixed rates on all their borrowed capital. Other largely uncontrollable items in the revenue budget include rent and rates, insurance premiums, and subscriptions to other organizations.

The uncontrollable nature of these expenses has resulted in their being excluded from some budgets intended as yardsticks of efficiency, such as electricity Generation Divisions' Revenue Budgets or the Revenue Expenditure Budgets of area electricity boards. To be a forecast or a plan of total spending, however, the budget must include all the fixed charges. They may be shown in a special section of the budget document to distinguish their unalterable character and make clear that little can be done at budget time to alter the proposed expenditure.

THE FORM OF THE BUDGET

The form of the budget has a marked effect on how it is prepared, how it is appraised before approval, and how after approval it can be used to apportion responsibility for revenues and expenditure. The supreme governing body who approve the budget will ultimately determine the form in which it is presented and approved, and what supplementary reports and statements should accompany it. The analysis of revenue and expenditure usually follows the same pattern from year to year without major changes, although constant minor modifications have to be made as new items have to be provided for and former items disappear.

The analysis of items in the budget generally corresponds with that used in the main accounts of the authority. This enables statements of actual results for comparison with the budget to be prepared from the ordinary accounting records, without special analyses and reallocations solely for purposes of budgetary control. It also assists in the preparation of estimates by

enabling reference to be made to the latest actual results under the same headings.

The Central Government

The central government's Estimates for Supply Services are arranged in Votes, each of which is the responsibility of a named department or officer. In the Estimates presented to Parliament, each Vote is set out in three Parts. Part I states the orbit of the services covered by the Vote and the net amount to be voted for the year; Part II the Subheads against which it will be accounted for by the responsible officer; and Part III further details of the main Subheads in Part II. The Estimates for the defence departments, apart from the Ministry of Defence, also include a special Vote, known as 'Vote A', stating the maximum authorized number of uniformed members in each of the three services.

For the civil and revenue departments there were 144 Votes in 1958–59. These were grouped into ten Classes corresponding to the functions they cover, such as Commonwealth and Foreign; Education and Broadcasting; Health, Housing and Local Government; or Trade, Labour and Supply. The Votes within these Classes are designated for particular departments or services. Some departments, such as the Ministry of Education, have a single Vote for all their functions. Others have separate Votes for some of their major services and a general Vote, usually designated by the name of the department, for all other expenses including the remuneration of nearly all non-industrial civil servants irrespective of whether they are employed on services for which there is a special Vote. Thus there is a general Vote for the Ministry of Health and a separate Vote for the National Health Service in England and Wales for which the Ministry is also accountable. The Subheads within each Vote may be concerned with the items of expense incurred, such as wages and salaries or purchases of stores, or with expenditure on particular functions not in themselves of sufficient magnitude to warrant special Subheads. The details in Part III include further particulars of numbers and grades of staff, lists of projects undertaken and so on.

The Home Office Votes provide an illustration of how the Estimates are analysed. They comprise six Votes in Class III, 'Home Department, Law and Justice'. The first of these, the 'Home Office' Vote, is divided into fourteen Subheads as follows:

General Administration
A. 1 Salaries, etc.
A. 2 Travelling and Incidental Expenses
A. 3 Telegraph and Telephone Services
A. 4 Purchase and Maintenance of Vehicles
Probation of Offenders, etc.
B. 1 Grants towards the expenses of Probation
B. 2 Probation Hostels and Homes
B. 3 Attendance Centres
B. 4 Expenses of Research
C. Grants towards expenses of Magistrates' Courts
D. Grants towards expenses of School Crossing Patrols
E. Marriage Guidance (grants-in-aid)
F. Anglo-Egyptian Resettlement Board (Registered Trustees) (grants-in-aid)
G. Other Services
Z. Appropriations-in-Aid (i.e. revenue directly accruing to the service)

The other five Votes provide respectively for civil defence, police, child care, fire services and licensed premises in the Carlisle State Management District:

The published Estimates appear first in a series of separate volumes—one for each Class of Civil Estimates, one for the revenue departments, and one for each of the defence departments. There is also an omnibus edition of all the civil and revenue departments' Estimates in a single volume, with indices and introductory memoranda. Altogether the Estimates cover about 2,000 printed pages. For 1958–59 the civil Estimates and Estimates for revenue departments occupied 1,312 pages and the Estimates for defence departments 748 pages. The greater part of these were taken up with the details in Part III of the Votes. Parliament does not, however, approve each of these

items separately. What it approves, in the annual Appropriation Act, is the total amount provided under each Vote, without specifying the Subheads and items to which it shall be devoted. This contrasts with the practice in many continental countries where the legislature approves the budget in much greater detail, and authorizes expenditure in terms of individual items of expense, such as salaries and wages, purchases and grants, rather than the total cost of a service or department.

In the United States much more attention has recently been given to presenting the budget as an estimate of the costs of different services. The Federal Government, together with many states and municipalities, have introduced the concept of 'performance budgeting', in which estimates are classified entirely by functions, activities and projects as opposed to expense items such as personal services, equipment and supplies. In a performance budget, the analysis by functions would be carried out in much greater detail than in the British Votes and Subheads and the last degree of detail would still be expressed in terms of functions and not in expense items such as salaries and wages or supplies. Moreover each heading would have to show the estimated total cost of the function, whereas the British functional headings exclude certain relevant expenses such as administrative salaries and wages and the cost of common services rendered by other departments. They are also estimated on a cash basis, which prevents their showing the precise cost of any function during a particular year owing to the inclusion of capital items and carry-over payments from previous periods.

In Britain, current policy is not to alter the traditional pattern of Votes and Subheads but to make the Estimates more informative in other ways. It has long been customary to show the previous year's Estimate for each Subhead and for many items of detail. A more recent innovation has been to append to each Vote notional figures for total expenditure in connection with the service or services, including that borne on other Votes, and an estimate of the total receipts in connection with the service. As Parliament concentrates on issues of general policy arising from the Estimates and does not attempt to review expenditure proposals in the same detail as Congress, it has not

felt the same need for more precise analyses of costs and functions such as performance budgeting is intended to provide. Further information necessary for a proper appraisal of the Estimates is published in other papers presented to Parliament. The annual white paper on defence reviews the policy underlying the defence department's Votes. When the Ministry of Education presented very large Estimates including grants to local education authorities they produced an annual White Paper on their Estimates explaining the activities they were intended to finance and the assumptions on which they had been calculated. The Minister of Housing and Local Government is now committed to present regular White Papers on the general grant, which from 1959–60 replaces the main education and other specific grants to local authorities. On another plane, the wider economic issues underlying the national Budget, above and below 'the line', are set out in the annual Economic Survey published shortly before Budget Day. Supporting data on general economic trends are supplied in the annual statistics of National Income and Expenditure.

Local Authorities

Local authority budgets very often set out extremely detailed analyses of proposed expenditure. Being on the average much smaller than other public authorities, they tend to seek a greater degree of precision in their estimates and to make separate provisions for outlays which larger authorities would leave to be met from lump sums voted under more generalized headings. Detailed budgeting is also encouraged by the great diversity of services and by the absence, in many of these, of any kind of standard costs or standards of needs or performance which could provide short cuts to estimating the expenditure necessary or desirable. Annual estimates for local authority trading services, where net earnings provide the main financial criterion of success, are usually prepared in much less detail than the Rate Estimates. Some authorities indeed have no budgets at all for their trading services, and in some others they are purely internal memoranda for the trading department and are not published or approved by the council.

The form of the Rate Estimates varies greatly between authorities. Some influence towards uniformity has been exerted by a standard form of local authority accounts recommended by the Institute of Municipal Treasurers and Accountants although this is by no means universally adopted.[1] It provides for up to six degrees of detail, as illustrated below:

Service	e.g. Health
Divisions of Service	e.g. Care of Mothers and Young Children
Sub-divisions of Service	e.g. Clinics and Centres
Expense groupings	e.g. Employees Running expenses
Sub-groups of running expenses	e.g. Premises
Detail heads	e.g. Salaries and Wages Repairs and Maintenance of Buildings

The first three headings are thus concerned with total costs of functions, departments or establishments. The second three are mainly designed to show the expenses incurred in the exercise of those functions—the emphasis is on the goods and services purchased rather than on what is accomplished with them. Very often council approval of the Rate Estimates is considered as separate approval of each detail head. Sometimes, however, it is reckoned as approval of the main headings—equivalent to service sub-divisions or expense groupings only, whilst the rest of the analysis is treated as supporting justification for the figures to be approved.

The complete set of Rate Estimates is published as a bound booklet which in larger and medium sized authorities often runs to several hundred pages. In 1957–58 one county borough with an estimated net rate borne expenditure of £3·85 million had 252 pages of Rate Estimates and in another, where the corresponding expenditure was £880,000, the Rate Estimates ran to ninety-eight pages. To assist in appraising this mass of figures, supporting information on the scope of the service and

[1] *The Form of Published Accounts of Local Authorities* (1955).

changes from previous years is increasingly being provided in the form of statistical statements or explanatory memoranda published with the Estimates or circulated separately to the councillors who have to consider the Estimates in draft. Some other authorities prefer to leave all explanations to be dealt with in oral statements or answers to members' questions at council and committee meetings. Almost invariably, however, the printed Estimates show the corresponding Estimate and the probable actual expenditure on each item in the preceding year, since comparisons with the previous year's figures are for most services the main yardstick by which the new Estimates are judged.

The Hospital Service

Hospital authorities' budgets follow the form prescribed by the health departments. Regional Hospital Boards must submit their Estimates under seven main headings. Two cover special functions—mass radiography and the blood transfusion services, one is for expenses of hospital management committees, and the other four cover their own expenses on central administration; remuneration of consultants, senior medical and dental officers and registrars; contractual arrangements; and other miscellaneous items.

For Hospital Management Committees the Ministry prescribes the following subheads:

A. Central Administration Expenses of the Committee.
B. Hospital Maintenance:
   1. Salaries and Wages (further analysed by type of staff).
   2. Provisions.
   3. Uniforms and clothing.
   4. Drugs, dressings, medical and surgical appliances and equipment.
   5. Fuel, light, power, water and laundry.
   6. Maintenance of buildings, plant and grounds.
   7. Domestic repairs, renewals and replacements.
   8. Other hospital expenditure.
   9. Direct credits.
C. Other Expenditure.

Many committees break down these expense groupings further for their own use, splitting up the items in composite Subheads like B4 and B5, and listing individual jobs and purchases under B6 and B7. In Groups of more than one hospital separate estimates are often prepared for each hospital in respect of the items under its direct control. In time it is also hoped to begin separate budgeting for each hospital department—in-patients, out-patients, physiotherapy and so on.

The Nationalized Industries

In the nationalized industries, the form of the revenue budget has been influenced much more by commercial methods than by those of non-trading public authorities. Thus they give more attention to the net financial results of trading activities and to unit costs, production standards or other indices of operational efficiency reflected in the budget. Comparisons with previous year's figures and detailed enumerations of expense items are less prominent than in the budgets of non-trading undertakings. This commercial approach makes the budget document much briefer in relation to the total expenditure involved. The tendency is for higher management to approve the budget under broad headings corresponding to particular functions or departments, without prescribing all the items of expenditure to be incurred by the officers responsible for that branch of operations. These details may be asked for in supporting schedules accompanying the budget but they are not approved as part of the budget itself.

In the National Coal Board, each Area and Division is asked for Forecasts of Financial Results for collieries and for each ancillary activity separately. Colliery figures are expressed not only in total but as a unit cost per ton of saleable output. There are also budgets for Divisional, Area and headquarters departments' administrative expenditure and for the expenditure of all training centres, pithead baths, medical centres and area laboratories. Individual budgets are prepared for each establishment and, where possible, are expressed in unit as well as aggregate costs. Pithead baths, for example, show expenditure per pair of lockers, and training centres expenditure per trainee shift.

Each Budget or Forecast, as presented to the Board, can usually be compressed into a single sheet. Further explanations have to be given on schedules for use by headquarters in appraising the budgets, and the results of this review are summarized in covering reports to the Board.

The same emphasis on standards and financial results is found in the budgets of other nationalized industries. Those for gas production and electricity generation show the production standards and calorific values assumed in estimating fuel costs. Those for civil aviation show the cost per capacity ton-mile and the profit or loss on each route. All these industries also endeavour to pinpoint the individuals responsible for each item of revenue and expenditure. The gas and electricity boards call for separate budgets for their regional sub-divisions, analysed under broad functional headings such as Works Costs, Distribution and Consumer Service. In civil aviation, where there is much less regional decentralization, the main analysis is by departments and functions—Operations, Engineering and so on—and by the different routes operated.

CONCLUSION

(1) A revenue budget has a multiplicity of uses—for forecasting income and expenditure, as a plan of activity, as a basis for policy-making and in setting standards of efficiency. These purposes should not be regarded as mutually exclusive, although estimates prepared for one purpose may sometimes require modification before they can be used for others.

(2) The financial estimates must be related to the underlying assumptions as to the demands on the service, the resources available, agreed standards of needs or efficiency, staff complements, cycles of recurring maintenance work, and detailed lists of non-recurrent maintenance jobs or purchases.

(3) The budget should be presented in a form which makes these underlying assumptions apparent, in order that they can be properly understood by those who examine or approve the estimates or use them as a standard by which to judge the actual results.

CHAPTER IV

THE REVENUE BUDGET: PREPARATION

LEGISLATION and internal regulations usually play some part in setting the framework of budgetary procedure. But the method of preparing a budget can never be entirely reduced to a written code. Much will always depend on the uncodified working relationships between those concerned in drawing up or adopting the budget document. Three principal stages in budget preparation can generally be distinguished. First, initial estimates are drawn up for each part of the organization. Secondly, these are brought together and where necessary revised to produce a complete draft budget for the whole undertaking. Finally, the draft budget is submitted to the supreme governing body—be it Parliament, an elected council or an appointed board—who alone have power to give it final approval. This chapter will describe how these processes are handled in different types of public authority in Great Britain.

THE CENTRAL GOVERNMENT

In the central government of Great Britain, the three stages of budget preparation may be briefly described as:

(1) The preparation of Estimates in the departments, which may start as much as twelve months before the beginning of the year to which they relate.

(2) The assembly of departmental Estimates by the Treasury, their consideration by the Cabinet, and the government's decisions as to how to raise the necessary revenue —lasting roughly from December to March.

(3) The examination of the Budget Proposals by Parliament and its approval of the Estimates and proposals for raising revenue, extending from February till late July or early August.

Budget Preparation in the Departments

On October 1 each year the Treasury sends its annual Estimates Circular to all departments asking them to submit Estimates of their expenditure on Supply Services in the coming financial year not later than December 1. Budget preparation in the departments often begins long before this, in order to allow time for examining requirements and adjusting them where necessary to produce Estimates which appear realistic in the circumstances and likely to be acceptable to the Treasury and the Cabinet.

Departments rendering direct services to the public or other departments have to start by estimating in some detail what goods and services they require. They therefore tend to begin budgeting earlier than those mainly concerned with grants to other bodies or with raising revenue. The Ministry of Works, for example, writes to other government departments in April asking what accommodation and supplies they will need in the following financial year. Requests for works and accommodation services have to be made by the end of June and for furniture and supplies by the middle of August. The Ministry's professional and technical staffs then decide whether, and if so by what means, they can meet these requests and what they are likely to cost. By October, their initial Estimates should have been passed on to the Ministry's administrative divisions, who examine their cost and consistency with the general policies and standards of accommodation already laid down in the department. They are then considered by the Finance Division, where there is usually considerable pruning of marginal items to bring the totals nearer to what is thought likely to prove acceptable. The figures eventually submitted to the Treasury are worked out at a series of top level meetings where the heads of the administrative divisions and the Finance Division are called upon to explain their proposals. These meetings are completed before the end of November, and the draft Estimates approved by the permanent secretary and the minister for submission to the Treasury on December 1.

The Post Office is another early starter in preparing its Estimates, because of the time required to assemble a unified budget for a very large and highly decentralized organization. Great

importance is attached to the principle that the Estimates should be prepared, as far as possible, by the people who will be spending the money. The process starts in April or May of the previous financial year, when Headquarters send out a circular stating the assumptions as to traffic, costs and general policy upon which the Estimates are to be based. The 466 Head Post Office Districts and fifty-eight Telephone Areas are asked to provide the initial Estimates for all the activities within their control. Head Post Office Districts draw up their Estimates in non-financial terms, stating the numbers and grades of employees and the amount of overtime required. They are usually discussed informally with Regional headquarters before they are finalized, so that little further revision is needed after they reach the ten Regional Offices where they are translated into money terms and summarized for Headquarters. Telephone Areas' Estimates are largely for engineering work calculated from agreed standards or programmes. The Regional Offices assemble and summarize the District and Area Estimates and the Estimates of their own expenses, all of which have to be submitted to headquarters in September.

At Post Office Headquarters, the Estimates are reviewed by committees composed of the heads of the interested departments. Special attention is paid to such matters as their consistency with national traffic trends and the ratio between traffic and numbers employed. At this stage also, the summarized cash Estimates are translated into a Commercial Account Forecast. This enables top management to consider the probable relationship between costs and earnings in the Commercial Accounts, before they approve the detailed Cash Estimates for transmission to the Treasury.

Since the Post Office is a trading department, it plans its services to meet the expected traffic. If this results in a deficit on the Commercial Account forecast it will seek to bridge the gap by altering its charges. The aim in pruning its Estimates for current expenditure is not therefore to bring them down to what the Treasury is likely to allow but to seek to render the services needed as economically as possible.

Another government trading undertaking basing its budget-

ing on estimates of demand is the civil aviation ground services operated by the Ministry of Transport and Civil Aviation. These are not at the moment expected to earn sufficient to cover their costs. The Ministry works on the assumption that it must cater for all the traffic likely to offer itself at the prevailing or prospective level of charges, and then calculates the cost of providing the necessary facilities. Estimating begins in the early summer in the Ministry's regional Divisions. Airports are not usually asked for financial Estimates, but Divisions confer with airport commandants as to their requirements of manpower and supplies.

Some non-trading government departments also find that their expenditure is largely dictated by public demand and cannot be deliberately adjusted without major alterations in government policy, generally involving new legislation. Thus, for pensions, family allowances and Exchequer contributions to the National Insurance funds, the Ministry of Pensions and National Insurance estimates on the basis of current rates of benefit and contributions, as laid down by legislation, statistics of numbers of contributors and beneficiaries, and trends of unemployment, the birth rate and other relevant factors. The Estimates are drawn up after consultation with the Government Actuary and the other departments concerned.

Other methods of preparing Estimates are called for in departments whose expenditure consists mainly of grants to local authorities. The Local Government Act, 1958, introduced a general grant to replace most of the grants for specific services. Previously the Ministries of Education and Health, among others, were paying large sums to local authorities in grants calculated as a fixed percentage of their annual expenditure on recognized services. In order to prepare their own Estimates, the ministries asked the local authorities for annual forecasts of their expenditure to be submitted in September or October of the previous year. To prepare the ministries' own cash Estimates, these forecasts were then aggregated, converted from an income and expenditure to a cash basis, and adjusted where necessary to correspond with the Ministry's own broader assessment of national expenditure trends.

Different arrangements have been adopted for estimating grants to local highway authorities. The Ministry of Transport and Civil Aviation does not automatically pay grants in respect of all their expenditure for recognized purposes, but tells them shortly before the beginning of each financial year how much it is prepared to approve for grants in the year. Estimate preparation begins by asking local authorities for forecasts of expenditure in the coming year. These are transmitted through one of the Ministry's Divisional Engineers who adjusts local authorities' forecasts to counteract any disparities in their standards of what is required. They may also be asked to give the Ministry alternative sets of forecasts, based, for instance, on optimistic, pessimistic and realistic assessments of the total amount of money available. Ministry headquarters make further adjustments to iron out disparities between Divisions and to bring the total Estimate into line with what the Treasury is likely to allow. By this time the Treasury has often given some indication of the total level of spending likely to be approved, so that they can revise their figures before they are formally submitted to the Treasury.

While the departments are completing their Estimates for Supply Services, estimates have also to be made for the other components of the Budget, above and below 'the line'. The revenue departments prepare estimates of Exchequer receipts, first on the basis of existing levels of taxation and later to show the effects of any changes that may be under consideration. The Treasury estimates the cost of Consolidated Fund charges and also the debt charges and 'below the line' items. They also make a general survey of trends and prospects over the national economy as a whole, in order that the budget proposals can be considered in the light of their wider economic implications.

Treasury and Cabinet Scrutiny

As all these estimates are brought together by the Treasury, it becomes possible for the government to re-examine its economic and financial policies and to review the detailed revenue and expenditure proposals against this broader background. Estimates for Supply Services are reviewed by the Supply Divisions

of the Treasury, who hold a series of meetings with senior officials of the spending departments, who are called upon to explain and justify their proposals. Considerable modification may be made in the Estimates at this stage. The scope for reductions varies from service to service. Works services, for example, may be curtailed without amending legislation, whereas family allowances, health services and insurance benefits represent statutory commitments to any qualified to benefit. Net expenditure on the latter may nevertheless be the easier to alter according to the degree of national stringency, as the government may decide to raise the level of contributions. Expenditure on activities carried out directly by government departments is often more easily regulated than grants and subsidies dependent on the activities of bodies not controlled in detail by the government. Again, the Treasury may feel that some departments have estimated their needs on a more generous scale than others, and should therefore be asked to prune their figures more stringently. Spending departments may also take the opportunity to revise their Estimates after submission to the Treasury if later information causes them to alter the assumptions as to prices, demand or other circumstances on which their earlier figures were based.

While the Treasury are examining the details of departmental Estimates in the light of broader government policies, the Cabinet themselves begin to examine the Estimates and any major issues to which they give rise. Revenue proposals and general economic prospects are also considered at this point.

The Estimates remain open to revision until mid-February, when the government has to seek parliamentary authorization to incur expenditure in the new financial year. Approval of expenditure on Supply Services cannot be carried forward from one year to another. As the time-table does not allow Parliament to consider and approve all the Estimates before the year begins, provisional approval to spend is given by means of a Vote on Account. For this purpose the Treasury prepares and lays before Parliament each February a statement showing the total net Estimate for the year on each Vote and the amount required to carry on the service until the full procedure for the

grant of supply has been completed, usually four or five months after the beginning of the year. Expenditure is then authorized by a resolution 'That a sum not exceeding £...... be granted to Her Majesty on Account for or towards defraying the charges for the year ending on the 31st day of March ......'. A Consolidated Fund Act is then passed before April 1 to provide for the issue from the Exchequer of money to meet this expenditure.

The defence departments are not covered by the Vote on Account. As they have special facilities for transferring funds temporarily between Votes, a selection of their Votes is passed before the beginning of the year and all expenditure is financed by temporary transfers from these until the remainder of their Estimates have been approved.

The Vote on Account only provides for services on which Parliament has already authorized expenditure in previous years. Expenditure cannot be incurred on any new service, even though provided for in the Estimates, until the Vote making provision for it has been passed by the House. Only in cases of special urgency can a special procedure be invoked to obtain Treasury authority to start a new service with money from the Vote on Account.

Once the Vote on Account is published, the Vote totals in the Estimates cannot be altered. The full Estimates are not usually published until later. They appear in Classes as they are ready, usually before the end of March. The Financial Secretary's Memorandum on the civil and revenue Estimates, which nowadays consists of tables summarizing various aspects of the Estimates appears before the Chancellor of the Exchequer presents his complete budget proposals to Parliament in the middle of April.

Parliamentary Procedure on the Budget

'Budget Day' is the great occasion in Parliament's annual cycle of financial business. This is when the Chancellor of the Exchequer makes his Budget Speech to the House of Commons, sitting as the Committee of Ways and Means. Nowadays he usually speaks for some one and a half to two hours, although before World War II much longer speeches, lasting three or

four hours, were more usual. The Budget Speech begins with a review of the national economy and government revenue and expenditure in the previous year and goes on to review prospects for the year then beginning and to explain his proposals for raising the necessary revenue. The proposed tax changes are always the most eagerly awaited part of the Budget Speech because of their direct impact on the public and the fact they have hitherto been a closely guarded secret known only to the Chancellor and his closest colleagues and advisers. The Chancellor's Speech, however, outlines the whole scheme of government finance for the year, including both 'above the line' and 'below the line' items and the economic policies on which the estimates are founded. The annual Financial Statement, published on Budget Day, gives a brief summary of Exchequer issues and receipts and related figures for the past and current year, showing the effects of changes introduced by the Budget.

The House of Commons sets up two special Committees each session to deal with financial business—the Committee of Supply to consider the Estimates for Supply Services and the Committee of Ways and Means to consider proposals for raising revenue and issues from the Exchequer to cover the expenses approved by the Committee of Supply. Both these Committees are Committees of the whole House. Members sit as a committee, under a chairman instead of the Speaker, in order to be able to debate more informally and speak more than once on a motion. All resolutions of both Committees have to be reported to and agreed by the House itself.

On Budget Day the Chancellor makes his Speech in the Committee of Ways and Means. Immediately he finishes speaking, Budget Resolutions are moved to give effect to the proposed taxation. These are passed at once without debate so as to leave no opportunity to forestall any tax changes. By the Provisional Collection of Taxes Act, 1913, taxes authorized by Budget Resolutions have statutory effect up to four months. Before this period expires, they are confirmed by statute in the Finance Act which re-enacts the income tax and other taxes imposed annually and authorizes all changes in existing forms and levels of taxation.

After the Budget Resolutions are passed, there is a general debate in Committee of Ways and Means. This lasts several days and extends over the whole range of economic and financial policy reflected in the Budget. Further opportunities to discuss the revenue measures arise in the debates on the Second Reading, Committee, Report and Third Reading stages of the Finance Bill. In 1957 this was debated in the Commons on fourteen days between May 7 and July 19, on eleven of which it was considered clause by clause by a committee of the Whole House.

Of the expenditure proposals in the Budget, Parliament has already authorized the Consolidated Fund charges and 'below the line' items by permanent legislation. For Supply Services, however, expenditure is only authorized for a year at a time, on the basis of the annual Estimates. These are considered by the Commons in Committee of Supply. Under the Standing Orders of the House, twenty-six Supply Days are reserved each session for discussion of the Estimates and related business. The Vote on Account occupies one Supply Day, when it is customary to have a general debate on the services covered by one or more related Votes in a Class which has already been published, Four more Supply Days are devoted to debates on the motion to go into Committee of Supply to consider the Army, Navy, Air and Civil Estimates respectively. These debates are always initiated by a private member, selected by ballot, and may cover any topic related to the group of Estimates in question. On the remaining Supply Days, the debate must be on a particular Vote or group of Votes, the choice of which traditionally rests with the Opposition. All Votes not approved in the course of these debates are put to the vote without debate on the last of the allotted Supply Days, which must be taken before August 5. The Committee of Ways and Means then approves the issue of money from the Exchequer to meet the approved expenditures. Finally, before adjourning for the summer recess, Parliament gives statutory force to the Committees' resolutions in passing a Consolidated Fund Bill. This is known as the annual 'Appropriation Act' since it not merely authorizes issues from the Exchequer but also 'appropriates' definite sums for particular services. This is done by setting out in a schedule to the Act

the description of the purposes of each Vote, as given in the approved Estimates, and the total expenditure thereon approved by the Committee of Supply.

All Consolidated Fund Bills and most Finance Bills are considered to be 'money bills', as defined by the Parliament Act, 1911. As such, they cannot be amended by the House of Lords but become law one month after being passed by the Commons, whether or not they have been passed by the Lords. Thus, while the House of Lords always debate the Budget Proposals, they have been for all practical purposes deprived of power to affect the legislation which gives them statutory authority.

The assumption underlying parliamentary proceedings on the Budget proposals is that they are an expression of government policy. It is a long standing convention that only ministers can propose new expenditure or taxation. From the beginning of the eighteenth century, the Commons' Standing Orders have laid down 'That this House will receive no petition for any sum relating to public service—unless recommended by the Crown'. An individual member of Parliament cannot propose an addition to the Budget as a means of trying to force the government to take up a project in which he may be interested. It is always open to him to propose a reduction in the Estimates for Supply Services, but in practice this is done to provide an opportunity for general debate on government policy, rather than to press for specific cuts in spending. Motions to reduce Estimates are often withdrawn without being put to the vote, although the opposition sometimes insist on a division to drive home their indignation. Thus Parliament's control over the government's finances rests upon its power to force the resignation of a government of whose proposals it disapproves. As the present two-party system has made a government defeat on a major issue in the House of Commons an extremely remote possibility, the Finance and Appropriation Acts normally incorporate the government's proposals exactly as presented in the Budget and Estimates, except in so far as the Chancellor may make some slight modifications in his tax proposals or the government finds it necessary to revise the Estimates originally presented to Parliament.

The budgetary procedure of the House of Commons has consequently not been designed to provide for a searching examination of individual items in the Estimates by the members themselves. Unlike the legislatures of many other countries, Parliament has never adopted the practice of detailed scrutiny by committees composed of a small selection of its members, with power to interrogate ministers and officials on their proposals and to recommend increases or reductions to the House. In Britain, Estimates are considered only by a Committee of the Whole House. There are only two qualifications to this rule, neither of which upsets the basic principle. The first is the practice whereby since the Second World War the Estimates for Scottish services have been debated in the Scottish Standing Committee, which comprises all members for Scottish constituencies and a number of other members of the House. The Estimates so debated have still, however, to be approved by the Committee of Supply in the usual way.

The other small committee concerned with the Estimates is the Select Committee on Estimates of the House of Commons. This has been appointed each session since 1912–13, except in wartime. It now consists of thirty-six members who are given power

> 'to examine such of the Estimates presented to this House as may seem fit to the Committee and to report what, if any, economies consistent with the policy implied in those Estimates may be effected therein, and to suggest the form in which the Estimates shall be presented for examination'.

Unlike parliamentary committees in other countries, who consider estimates before they are passed, the Select Committee do practically all their work on Estimates that have already been voted by the House. Nowadays they do not attempt to review the whole of the Estimates but select a small number of services or aspects of government spending each session for special investigation. In 1957–58, for example, they reported on the following seven topics: Police (England and Wales), the Ministry of Power, the Reserve Fleet, Lands Branches of the Service Departments, the Department of Scientific and

Industrial Research, the Nature Conservancy and—an exceptionally wide subject of investigation—Treasury Control of Expenditure. The investigations are carried out by sub-committees who call for extensive oral and written evidence from government departments and other bodies concerned. This is published with the sub-committee's reports which contain brief surveys of the situation and recommendations for improvement in financial procedure and administration. The departments' replies, stating their views and any action taken, are submitted in memoranda which are published by the Select Committee. The Committee's approval is not required before Estimates are approved by the Committee of Supply or money voted by the House.

In the Committee of Supply itself, the Supply Days are used for general debates on issues of policy arising from the Estimates. On four days, the debate is on the motion to go into Committee. On the other days it is on a particular Vote or group of Votes in the Estimates, usually on a motion to reduce the relevant Vote, or one of them, by a token sum of £10. The motion gives an opportunity to discuss services provided for in the Vote, and if afterwards withdrawn without being put to the vote. Topics debated on Supply Days in 1956–57 ranged from prisons in England and Wales and the National Health Service in Scotland to the situation in the Middle East and race relations in Central Africa, Kenya and Tanganyika. The convention whereby the choice of topics for debate on Supply Days rests with the opposition or private members gives expression to the traditional right of the House to air grievances before voting Supply. The government is given due notice of the topics that the opposition intend to raise and are very often told who will lead the debate and the main points of criticism to be made, so that they have time to prepare a considered answer and select appropriate speakers to reply. Now that the government has come to take so large a share of the time of the House for its own legislative programme, Supply Days have become one of the most important opportunities for the opposition and private members to initiate debates on subjects of their own choosing.

THE HOSPITAL SERVICE

The Basic System

Hospital authorities' expenditure is financed by allocations from the health departments out of moneys voted annually by Parliament. Hospital authorities have therefore been obliged to adopt a system of annual budgeting which enables the departments to conform to normal procedures for parliamentary approval of expenditure on Supply Services, while taking account of the fact that hospital authorities have a certain measure of autonomy and a different accounting system from ordinary government departments.

The procedure adopted is basically as follows. First, the hospital authorities supply the health departments with Forecasts of their requirements for the next financial year. Then, after the level of the Ministry's own Estimates has been settled, each hospital authority is made an Allocation for running expenses and asked to prepare and submit for approval Estimates showing how they propose to spend this total. The following paragraphs describe how this system operates in England and Wales. In Scotland, broadly the same principles are followed, with such variations as are appropriate to the different organizational structure of the service. The main principles of the procedure have been laid down in statutory Regulations. These are amplified by ministerial circulars from the health departments setting out more precisely the assumptions, time-tables and forms to be adopted in each year's budgeting.

The Ministry of Health asks Regional Boards and Boards of Governors to submit in November each year a Forecast of their expenditure on revenue account for the coming financial year, together with Revised Estimates of their expenditure in the current year. Regional Board Forecasts include their own direct expenditure and a separate summary of the expenditure of Hospital Management Committees in the Region. Consequently, the annual budget cycle begins with the preparation of Forecasts by Hospital Management Committees, in the summer preceding the year to which they relate. Regional Boards ask for these by September or early October in order to allow time

for scrutiny by Regional Board Officers and approval by the Board before they are summarized and submitted to the Ministry.

All Forecasts must show estimates of the amounts required:

(*a*) to maintain services at the level they are likely to reach by the end of the current financial year, and
(*b*) for urgent improvements and developments, of which details have to be supplied.

The Forecasts and Revised Estimates are analysed under sub-heads prescribed by the Ministry, and the differences between the two must be explained in terms of a number of specified factors. This information is intended for use by the Ministry and the Treasury in determining how much of the nation's resources can be devoted to the hospital service, and hence how much Parliament should be asked to approve in the Ministry's cash Estimates for hospital authorities' current expenditure.

The total sum available for hospital running costs is calculated in two parts:

(*a*) the estimated cost of carrying on the service at the level it is likely to reach at the end of the current year is derived from the Revised Estimates, adjusted in the light of national trends and with additional allowances for such unavoidable increases as the full year cost of wage and price changes during the current year;
(*b*) the sum to be allowed for developments and improvements; this is decided at ministerial or Cabinet level, taking into account the commitments of the service such as bringing new buildings into use, the need for further development, and the exigencies of the prospective budgetary situations.

The total of these two estimates is converted on to a cash basis to form the Ministry's own Estimate for current expenses in the hospital service.

The total sum agreed with the Treasury then has to be divided among the various Regional Boards and Boards of

Governors. This task is left to the Ministry, who make an Allocation to each Board calculated to give them:

(*a*) the amount necessary to maintain the level of service reached at the end of the current year;
(*b*) further sums for development and improvements, subdivided between:

(i) the estimated running costs of new capital developments that have come into operation during the past year; and
(ii) an allowance for other additional expenditure not resulting from new capital development.

In calculating the amount to be allocated under (*a*) adjustments are made for any overestimation of the expenditure in a full year on developments and improvements started in the current year. The Allocations under (*b*) (i) are generally based on the boards' Forecasts. The remainder of the sum agreed for developments and improvements is available for Allocations under (*b*) (ii). This is usually substantially less than the boards' Forecasts under this head—in recent years less than £1½ million out of total Allocations of some £300 million.

Ministry Allocations are announced to the Regional Boards and Boards of Governors in February, with a request to prepare Estimates under prescribed subheads showing how they propose to use the Allocation. Regional Boards must first divide their Allocations between their own expenses and those of their Hospital Management Committees. The latter are usually notified of their Allocations towards the end of March. They are then asked to prepare Estimates, under subheads prescribed by the Ministry, for approval by the Regional Board. Boards of Governors and Regional Boards prepare Estimates of their own expenditure for approval by the Ministry.

Hospital authorities' Estimates are usually not finally approved until some months after the beginning of the year. There is no equivalent either at Ministry or at Regional Board level of the parliamentary Vote on Account to authorize expenditure before the Estimates are approved. This has not been felt necessary, since the Estimates are intended primarily to

show how expenditure will be kept within the limit set by the Allocations which are settled before the year begins. Detailed scrutiny of spending plans by higher authorities takes place when the Forecasts and Allocations are under consideration, and not when the Estimates come up for approval.

Local Variations

The budgetary system defined by Ministry requirements leaves considerable latitude for local variations in practice. This is conspicuous in the degrees of decentralization in budgeting and in the assumptions on which estimates are based.

Management Committees vary in the extent to which the individual hospitals in a Group are brought into the preparation of Forecasts or estimates, either by asking them for financial estimates of their actual running costs or, as is much more common, for statements of their requirements in terms of numbers of staff, pieces of equipment and lists of maintenance jobs. There is usually some consultation with the hospitals on both Forecasts and Estimates, but on the former it is sometimes confined to items outside the normal routine hospital expenditure. Some Regional Boards keep close controls over Committees' expenditure on any jobs or purchases which are not a regular charge on the service every year, and require these to be listed in the Forecasts for individual scrutiny by the Board and their technical and financial officers. Other Boards confine themselves to examining the total of Committees' Forecasts in the light of their knowledge of developments in the Group, and do not ask for exhaustive returns of non-recurring items or insist on these having their specific approval.

Some Management Committees prepare detailed budgets for each hospital at the Forecast stage and exercise a high degree of restraint in formulating their requirements, in order to stand a good chance of receiving an Allocation not substantially different from the Forecast and so being able to use the Forecast figures as the basis of their Estimates. Others work on the assumption that the Allocation will be materially less than the Forecast, and therefore calculate their Forecasts in broader terms, including more generous estimates for developments

and improvements. The detailed hospital-by-hospital budgeting then has to be done after the Allocation is notified. This has the disadvantage of delaying the detailed planning of expenditure, but avoids the risk of having to set aside plans made at an earlier stage because they cannot be contained within the Allocation. The many differences of approach between these two extremes mean that Regional Boards, both in assembling Forecasts and in making Allocations, have to use their knowledge of individuals and local circumstances to secure a fair measure of equality of treatment for each Group according to its relative needs.

LOCAL AUTHORITIES

The Basic System

Local authorities must prepare revenue budgets each year in order to fulfil their statutory duty to levy a rate or precepts sufficient to cover their expenditure for the year. Local authorities have no uniform budgetary system prescribed by law. Their budgets do not have to be approved by the government or by any higher authority beyond the council themselves. In this respect they have substantially more autonomy than local authorities in many other countries whose budgets frequently have to be approved by some agent or department of the central government, and are often much delayed and materially altered in the process. In Britain the government has sometimes asked councils for forecasts of their expenditure on grant-aided services, but it has always emphasized that these are simply for the guidance of the Ministry in preparing its own Estimates. Where the government seeks to control local authorities' expenditure on grant-aided services, it prefers to do so by insisting on ministerial sanction of specific items. There is no question of requiring ministerial approval for the revenue budget as a whole or for the Rate Estimates of any particular committee.

Each authority is free to devise methods of budget preparation to suit its own particular circumstances, including such factors as its size, the range and character of services covered, how keenly councillors are interested in the financial implica-

tions of their policies, and whether the council is organized on political party lines. Scottish authorities have a statutory obligation to prepare annual Estimates of expenditure on revenue account but are otherwise almost as free as English councils to determine their own procedures. Their budgets must, however, extend to all their expenditure on revenue account including trading services. In England and Wales these are frequently omitted from the annual budget, which is then confined to Rate Fund services and hence known as the 'Rate Estimates'. It is with these that the rest of the section will be concerned.

The method of preparing the Estimates follows certain well-established conventions common to practically all local authorities. Spending committees are made responsible for preparing and presenting to the council annual Estimates of income and expenditure for the services committed to their charge. The council consider and approve the Estimates, with such amendments as they think fit, and then fix the rate or precept for the year at the level appropriate to meet the estimated net expenditure.

Nowadays practically all councils have a finance committee to whom they have delegated the duty of examining spending committees' Estimates and reporting thereon to the council. The council then consider the Estimates on the report of the finance committee. Few finance committees have actually been given power to alter the spending committees' proposals. But they can and do recommend alterations to the council, and the relationship between the finance committee and the council is usually such that the council very rarely depart from the finance committee's recommendations. The result is that the Estimates pass through the following three stages before they are finally approved:

(1) Initial adoption by spending committees.
(2) Examination, revision and assembly into a unified budget by the finance committee.
(3) Consideration and approval by the council.

The following sections will examine the various methods whereby these stages are handled.

Initial Preparation

The initial Estimates are the responsibility of the spending committee. They represent a statement of the committee's policy for the coming year and the probable cost of carrying it out. What is included in the Estimates will depend on the estimated cost of carrying on existing policies and services and on the effects of any changes in policy expected to come into effect during the year. Committee members will not themselves calculate exactly what resources will be needed to carry out their policies or what these are likely to cost. But they must as a committee agree on the policy to be reflected in their Estimates. Mostly this is not done as a deliberate prelude to budgeting but in the ordinary course of business during the year. The permanent officers of the spending department must then take note of these decisions and, when budget time comes round, see that appropriate provision is made in the Estimates.

Some spending committees, however, make special reviews of their requirements for the express purpose of deciding what should go in their Estimates. One council's financial regulations require that:

> 'During the month of November all Committees having power to incur, or recommend the incurring of, expenditure defrayed out of the General Rate Fund, shall consider what, if any, special provisions are to be included in their respective estimates for the ensuing financing year.'

'Special provisions' include any new and non-recurring item of expenditure, such as extra furniture for schools, extra running costs for opening additional places at a training college, or the purchase of a film projector for a local museum or public library. Many of these would have been discussed earlier, but definite decisions are deferred until the November review.

An annual review of staffing may also be a regular preliminary to budgeting. Spending committees may be asked to consider the existing numbers and grades of those employed in their services and their estimated wages and salaries for the coming year, and to decide whether any increases or reductions in staff should be made. The newly agreed staffing levels can then be

used as the basis of their Estimates. Sometimes any proposed changes in complements must first be approved by a special staffing or establishments committee who control the staffing of every department of the council. Elsewhere, the review is made at spending committee level only.

The detailed work of assembling the initial Estimates is normally carried on in the spending departments. They work out what the committees' policies imply in terms of manpower and other goods and services required and their probable cost. In this task they are assisted in various ways by the treasurer's department. The treasurer normally supplies figures of expenditure on each subhead in previous years and to date in the current year. In some smaller departments members of the treasurer's staff work side by side with the spending department's officers in calculating what their estimated requirements are likely to cost. Larger departments often have their own trained accountants who do not need so much help from the treasurer's department, although the treasurer is usually ready to offer his services in any way he can to ensure that the Estimates are correct financial interpretations of the committee's policy. To this end the chief officer of a spending department will often go through his draft Estimates with the treasurer or one of his senior assistants before they are presented to the spending committee. In some cases the treasurer himself presents the Estimates to the spending committee. This is probably more common among smaller authorities, but it is also the practice in some of the largest. More often, however, Estimates are presented by the chief officer of the spending department, in recognition of the fact that the initial Estimates are the responsibility of the committee and of the officers directly responsible to them.

The draft Estimates are presented to the committee with observations on the most salient features—either in a written report or orally by the chief officer or by the treasurer. Both these officers normally have an opportunity to address the committee so that any differences of opinion between them can be fairly put before the members of the committee. The amount of questioning and discussion varies. It is seldom very prolonged, as the Estimates are intended to be a reflection of policies to

which the committee have already agreed. In the larger services there may also have been a preliminary examination of the Estimates by functional sub-committees of the main committee—for example, a Schools or Further Education Sub-Committee of an Education Committee—and sometimes by a finance sub-committee as well. In this case the chairman of the sub-committee usually presents the Estimates to the main committee.

Review of Estimates and Assembly of the Budget

The initial Estimates may be revised for several reasons: to correct inaccurate estimating of the resources needed to carry out a given policy or their probable cost; to adjust plans discovered to be impracticable owing to such factors as shortages of manpower and materials, delays in opening new accommodation, or the need to extend a service to meet new ministry or statutory requirements; or, to curtail spending so that the aggregate amount to be raised from rates shall not be more than it is thought desirable to demand from ratepayers.

Revisions may be decided on at several different stages. The chief officer may amend his original proposals, after consultation with the treasurer or other chief officers, before the draft Estimates come before the spending committee. Alterations may also be agreed upon between the chairmen of the finance and spending committees, before the Estimates go to the full spending committee. In this case the finance committee's work may become more a matter of examining and ratifying what has already been provisionally agreed. Further revisions may, however, take place after the Estimates have been presented to the finance committee. Many finance committees appoint a small sub-committee to examine the Estimates and report to the main committee recommending any revisions they may consider desirable. The sub-committee or their chairman will be briefed by the treasurer as to how much is absolutely essential and unavoidable, and where there is scope for pruning, either because requirements were not realistically estimated or because plans could be altered if necessary to reduce total spending. The sub-committee will probably begin by discussing the aggregate

total of committees' Estimates and what this implies in terms of a rate in the pound. They can then decide whether, and if so to what extent, they should try to reduce it by pruning the Estimates. After this they can proceed to examine each committee on its Estimates. Several long sittings may be devoted to the work, as each committee chairman is often called upon to appear personally for interrogation, with the treasurer and the chief officers of the spending departments in attendance to supply further information and material for argument as called upon. When the sub-committee have completed their work, the main finance committee meet to consider their proposals and to decide, on the advice of the sub-committee, their recommendations to the council as to the rate to be levied and the amounts and purposes of expenditure to be authorized in the Estimates.

Approval by the Council

The council normally delegate all detailed scrutiny of Estimates to the finance committee, which usually consists of senior and respected members of the council chosen to reflect the main views represented on the council and—where political groupings exist—the balance of power between the parties. Consequently the council are usually ready to accept the finance committee's recommendations. Their acceptance is not automatic, however, since any councillor is at liberty to move an amendment opposing either the rate or any of the individual Estimates recommended. Members of minority parties and spokesmen for minority interests often avail themselves of this right, making budget day in the council the scene of lively and prolonged debates that range widely over many facets of council policy. As in Parliament, the budget provides any opposition parties or other minorities with valued opportunities to criticize those in power and to state their own views, even though, as in the national government, they may have little prospect of carrying any motion to alter the figures placed before them. As in the House of Commons the council's discussion on the budget is also valuable as an occasion for *public* debate, since most of the committee proceedings take place in private.

The Time Schedule

English local authorities normally make their rates shortly before the beginning of the financial year, on April 1, so that rate demands can be issued and income begin to come in as soon as the year begins. Most of the work of budget preparation is therefore done in the last quarter of the financial year. Spending committee Estimates in the smaller authorities are mainly prepared in January and February, and approved by the finance committee in late February or early March, so that the complete budget can be approved by the council before the new financial year begins. In larger authorities budgeting has to start sooner —often in November or earlier—as the Estimates are more voluminous and more time is needed for their assembly and scrutiny. County councils have to complete their budgets earlier than other authorities, so as to make their precepts on the county districts in time for the latter to include the appropriate levy for county expenses when fixing their own rates. When county services are administered through divisional executives or committees, the latter may have to complete their Estimates in the early autumn to allow sufficient time for consolidation at county hall before presentation to the spending committee. Forecasts of expenditure on some grant-aided services have also to be made in the early autumn for submission to the appropriate ministry, but these are generally prepared in less detail than the Rate Estimates, which are usually computed entirely afresh a month or two later.

In England and Wales the council normally approves the budget before the beginning of the financial year. There is then no question of requiring special provisional authority to incur expenditure until the Estimates have been approved. Occasionally the council do not have their budget day until April, but they then let departments carry on for the intervening few days on the assumption that they may incur expenditure on items provided for in the Estimates. There is no formal Vote on Account like that approved by Parliament for the central government except in the London County Council. There, although the rate is fixed before April 1, Estimates are not finally approved before July. A Vote on Account is therefore passed

before the beginning of the financial year to authorize expenditure in the interim. Unlike the parliamentary Vote on Account, this is not limited to expenditure on existing services but extends to new items not included in the Estimates of previous years, provided these have already received the specific approval of the council.

Scottish local authorities follow a different time schedule. Although their financial year begins in mid-May or at the beginning of June, county precepts are not issued until July and rates are never made until late August or September. Consequently, most authorities do not begin to prepare their Estimates until after the beginning of the financial year. Meanwhile, they allow expenditure to continue on existing services without any formal authorization or Vote on Account. A few larger authorities, however, have adopted a method of 'provisional' budgeting in order to settle their spending plans before the year begins. In Edinburgh, for example, provisional Estimates have to be presented by spending committees, reviewed by the finance committee and their Estimates Sub-Committee, and approved by the council before the end of the previous financial year. The provisional Estimates are reconsidered by committees and again presented to the council for approval in late July, when the rate is finally made. The final budget usually differs from the provisional Estimates only in so far as it allows for subsequent price changes or alterations in demands on the services. The policy governing spending plans is normally settled at the provisional budget stage and not revised later. Where there are no 'provisional Estimates', the later preparation of budgets in Scotland means that part of the budget provisions are expended before the Estimates are approved, leaving less scope for pruning or revision at this stage. On the other hand, it may be possible to attain greater accuracy in the Estimates by basing them on more up-to-date information, including frequently the complete accounts of the actual expenditure in the previous year.

THE NATIONALIZED INDUSTRIES

The nationalized industries organized as public corporations

have been left freedom to develop their own systems of revenue budgets. The government has never attempted to prescribe their budgetary procedures. Unlike the hospital authorities and other bodies financed out of moneys provided by Parliament, they are normally under no formal obligation to submit budgets for ministerial or parliamentary approval. The only exceptions are where subsidies or temporary loans are received from public funds and the probable amount required each year has had to be approved in advance by the appropriate minister. The nationalized industries are thus given much more autonomy than the federal government corporations in the United States which, even if financially self-supporting, have since 1945 been required to submit annual 'business type' budgets of income and expenditure for approval by Congress.

In their approach to budgeting the nationalized industries have more in common with private industry and commerce than with non-trading public authorities. One important aspect of this is the absence of publicity. The contents of their budgets are not normally disclosed outside the industry except, in confidence, to the appropriate minister. General publication of revenue budgets, important in other branches of public expenditure as an instrument of democratic control, is undesirable for trading concerns because of the advantage it might give to their competitors.

In the preparation of budgets, nationalized industries tend to give less prominence than other public authorities to the rationing of limited resources and more to planning activities to meet demand. As they are trading undertakings for whom demand is the ultimate limiting factor, their budgeting begins by forecasting demand, deciding how far it can be met with the resources available, and so determining the level of output for which to budget. This is usually done at headquarters, by those in a position to make allowance for all the factors likely to affect the aggregate demand for the product or the supplies of manpower and other productive resources. The estimated total output must then be apportioned among regions, works, departments or other spending units. Each of these has to be told the level of activity for which to budget before it can be asked to estimate

the resources or expenditure required and, where appropriate, the probable income as well. These initial estimates are brought together at higher levels and revised if necessary to form a consolidated budget. This process is usually carried out in several stages as the estimates pass to successively higher tiers of management, until they are all united in a single draft budget for examination by the governing board.

Electricity Supply: Generation

In the Central Electricity Generating Board, annual Revenue Budgets are prepared for each Generating Division. These are founded upon annual Station Loading Estimates showing the amount of energy each power station will be required to supply. National headquarters estimate the aggregate demand throughout the year and, since electricity cannot be stored, the maximum demand that will have to be met at any given point of time. The estimated demand is then split up between the power stations with regard to their relative fuel costs and distance from consumers. The aim is to ensure the most economical pattern of production by keeping low fuel cost stations in continuous operation and bringing in the less economical plant only to meet peak loads. How much each station has to produce during the year will depend on consumers' actual requirements and the availability of plant, and may vary considerably from the original Loading Estimates. At the time they are made, however, the Loading Estimates represent the best available forecast of output on which Stations, Divisions and Regions can base their plans and estimates for the coming year.

The next task is to estimate the costs of producing the amount indicated in the Loading Estimate. The 'Generation Costs' directly incurred at power stations are estimated separately for each station. Practices vary as to how far the estimates are made by those running the power stations or by Divisional headquarters. Some stations are only asked to state their fuel requirements quantitatively, leaving them to be priced by Divisional headquarters. Other Divisions make each station estimate its fuel costs and other direct expenses, possibly with some guidance from Divisional headquarters. One Division is planning to

decentralize budgeting within each station, by asking for separate budgets for each of the three main processes—fuel handling, boiler house and turbine house.

Divisional headquarters bring together the station budgets for 'Generation Costs' and their own estimates for the transmission of electricity, for Divisional overheads, and for any purchases of electricity. The complete set of budgets is approved by the Divisional Controller and submitted to the Regional Director. The Regions consider the Divisional budgets and transmit them together with their own budgets of Regional overheads, to Generating Board headquarters. Headquarters departments prepare similar budgets of their own direct expenses. The three Project Groups although mainly concerned with capital expenditure, submit revenue estimates of their administrative and general expenses.

At national headquarters all these budgets come before a special Budgetary Control Panel, consisting of a senior officer from each of the main departments. The Panel spend some time considering each set of estimates—Generation Costs, Transmission Costs, Headquarters Departments and so on—separately. Several meetings are usually required before each is finally disposed of, as doubtful points have to be cleared with the Regions or departments, and agreement reached on any revisions to be recommended to the Board. The Panel conclude their review by presenting an Annual Report to the board summarizing the budgets and commenting on their main features. The Board, after discussion and questions, can approve the budgets at the level recommended by their officers or refer figures back for reconsideration. Normally Board approval is given by the end of March so that Regions, Divisions and departments know how much they are authorized to spend before the financial year begins on April 1. As budgeting begins in the Divisions in November or December and the Station Loading Estimates are settled in December, the process of budget preparation is spread over some three or four months.

There are separate procedures for preparing the other types of budget, usually known as Trading Forecasts, for guidance in policy making. These contain estimates of income and pro-

visions for capital charges and emergency repairs which, being outside the control of Divisions, are excluded from their Revenue Budgets but have to be included to obtain a reliable forecast of trading results. Tariff Estimates for guidance in settling the following year's Bulk Supply Tariff, are prepared at national headquarters every autumn from forecasts of expenditure submitted by Divisions and Regions, and estimates of income prepared centrally. Trading Forecasts showing net earnings for several years ahead are also made for use by the Electricity Council in drawing up Trading Forecasts for the whole industry, including the area boards.

Electricity Supply: Distribution

Area electricity boards prepare Trading Estimates as forecasts of financial results for use by the boards themselves as a guide to profitability and by the Electricity Council in making financial forecasts for the industry as a whole. They are sometimes prepared entirely at Area headquarters. Often, however, they are drawn up initially by sub-areas, districts or other administrative sub-divisions, brought together at Area headquarters and scrutinized by headquarters departments before being approved by the area board or their chief officers for submission to the Electricity Council, who require them in order to prepare their Trading Forecasts for the industry as a whole.

The reliability of Trading Estimates depends on accurate estimating of payments for bulk supplies of electricity from the Generating Board, which absorb about 70 per cent of all expenditure on revenue account. This depends on the Bulk Supply Tariff, announced each autumn for the coming financial year, and on the area boards' estimates of consumer demand. Expenditure depends not only on aggregate consumption during the year but, under the terms of the Bulk Supply Tariff, on the maximum demand at any one point of time. Where Trading Estimates are prepared for separate sub-areas, the latter have sometimes been left to make their own demand estimates as well. But other areas have found that greater accuracy can be obtained by first settling the demand forecasts at area headquarters. In one area this is done after considering two sets of

estimates prepared independently by the sub-area concerned and by the headquarters engineers.

Some area boards also prepare Revenue Expenditure Budgets for internal use as a yardstick and authorization of sub-areas' or districts' controllable expenditure. Here the problem of estimating demand does not arise, since controllable expenditure of maintaining the supply network, consumer service and general administration is not, in the short run, affected by the amount of current supplied. Revenue Expenditure Budgets are intended to indicate the minimum expenditure necessary to maintain an adequate service and, once approved, may not be exceeded without supplementary approvals. They are generally prepared shortly before the beginning of the financial year, after the year's Trading Estimates have been approved. Their preparation calls for a more detailed review of controllable items and is usually more decentralized, the object being that all managers, down to foremen and showroom managers, should make the initial estimates for expenses within their control. The draft Budgets may therefore be re-examined, summarized and approved at several intermediate levels of management before coming before the area board for approval. They are not submitted to the Electricity Council.

Gas Boards

For the gas boards, the question of settling the demand for which to budget is simpler than in electricity supply, in so far as the possibility of storing gas gives an additional measure of flexibility in relating production to consumers' requirements. Gas works, moreover, generally have relatively localized markets. Although some area boards have gas grids linking a number of works to supply a larger district, there is nothing comparable to the National Grid and Supergrid of the Central Electricity Generating Board for national pooling of supplies for all the power stations in the country. Hence a gas board can generally assume that there will be fairly direct relationship between the output for which to budget at a particular gas works and the estimated total demand for gas in the district it serves.

Works and district managers, who are often concerned with both production and retail distribution, can therefore be asked to estimate the level of demand for which they ought to budget. Gas board headquarters do not usually supply any initial loading estimates. They do, however, make a preliminary review of the demand estimates proposed by each works and district before asking them to draw up the financial part of their budget. The original demand estimates can thus be revised where appropriate in the light of the board's knowledge of general trends over the area and over the country as a whole.

The examination of demand estimates is often combined with a review of estimated standards of production—output per ton of coal carbonized and so on—which will determine the costs of production at each works. There is seldom much doubt as to the technical potentialities of the plant. What is more difficult is to estimate the average loss in efficiency due to time spent operating at less than the optimum capacity owing to shortfalls in consumer demand. The estimated production standards are therefore examined in some detail by technical experts who may suggest a revision of the standards to be used in the budget. But although they are extensively discussed with and usually agreed with area headquarters, the standards remain the responsibility of the operating units.

The agreed demand estimates and production standards are used to draw up the budget of income and expenditure for each district and works. These are sometimes prepared at group or sub-area level, as the individual operating units may not be large enough to have suitably qualified staff. Area headquarters assemble them for submission to the board. Little can be done to amend the budget at this stage, as the main scrutiny of district plans and estimates by Area headquarters will already have taken place in agreeing on standards and demand estimates.

Consideration of the budget may lead to fundamental changes in Board policy as to prices or production plans, but such measures would be taken after the budget had been approved as a realistic estimate of results at the prices and in the circumstances assumed in its preparation.

Civil Aviation

The airways corporations are in a better position than the electricity or gas industries to base their budgets on firm plans of operations for the coming year. They have to plan their services far ahead in order to publish time-tables and take bookings, although these plans may be modified at short notice by extra flights or cancellations and by charter arrangements, as the demand indicates.

British Overseas Airways Corporation begin budgeting by agreeing on an Operational Plan setting out the routes and frequencies on each service for the coming year. This is drawn up by senior officers who form the Planning Group of the Corporation. The Group produce a draft Operational Plan, designed to make the most profitable use of the Corporation's fleet, taking into account demand, available capacity and the internationally agreed tables of fares. The draft Operational Plan is submitted to the standing committee of all department heads and chief officers who, after revision if necessary, approve it as the framework for detailed budgeting by departments.

The Operational Plan for the year beginning on April 1 is scheduled to be approved in the previous December. This gives departments two to three months to draw up detailed plans and financial estimates within the departments. Planning and budgeting are highly decentralized. Foremen in engineering workshops are asked to estimate the time and manpower required for processes under their charge, and captains in charge of particular flights of aircraft to estimate their fuel consumption on different routes. These quantitative estimates are evaluated in money terms by the departmental accountants. The department head is reponsible for approving the financial estimates in his department's budget as well as the underlying plans and standards.

The revenue side of the budget is prepared by a central section responsible to the Chief Accountant. This section also bring together the departments' expenditure estimates. The complete draft budget and underlying physical plans are thus assembled in a single folder for consideration by the panel of chief officers. Further adjustments in plans are generally

called for at this point, to improve the prospective net earnings. Services estimated to run at a loss may be reduced in frequency in order to improve load factors, or plans for expanding departmental functions may be subject to enforced reduction. The chief officers and their supporting staffs meet for a special weekend conference to examine the draft budget and work out the necessary revisions. The amended draft is then summarized for submission to the board. At the board meeting, members discuss and question chief officers on the estimates and the underlying policies. In view of the careful scrutiny by their chief officers however, they are normally ready to accept the proposals without further alteration.

National Coal Board

Until comparatively recently, the National Coal Board's problem has been to find enough coal to meet the domestic needs of the United Kingdom. Their arrangements for budget preparation were therefore evolved on the assumption that they had to produce all the coal they could. These processes are expected to be modified to take account of limitations imposed by demand.

The earlier arrangements illustrate how budget preparation may be affected by restrictions on the ability to produce sufficient to satisfy demand at the prevailing prices. The Board began by calling for estimates of manpower and output for each Area. Some Areas prepared separate estimates for each colliery, after discussion with the colliery management. Experience showed that the aggregated forecasts required adjustment, not only for optimism and pessimism but because they had to ignore such factors as losses due to unofficial strikes which could not be satisfactorily allowed for in the forecasts for individual collieries. These adjustments were therefore made, first at Divisions and then at headquarters, before the Forecasts were submitted to the Board. Board approval was usually given in September for Forecasts relating to the following financial year, which coincides approximately with the calendar year.

The approved manpower and output Forecasts became the basis of the annual estimates of income, expenditure and profits or losses on collieries. Similar Forecasts of Financial Results,

based on output forecasts, were made for ancillary undertakings. These Forecasts were prepared by Areas and aggregated and reviewed by Divisional Boards for presentation to headquarters in October. Before presentation to the Board, they were revised as appeared necessary after discussion between the Directors-General of Finance and Production at headquarters and the corresponding Directors in the Divisions. Finally they were submitted to the Board in December, so that Board approval might be given before the beginning of the financial year.

Special budgets for non-operational expenditure are prepared by similar methods. As regards expenses controlled by national headquarters, there is first a review of the quantities of manpower, goods and services to be provided for in the budget. Financial estimates are then drawn up on the approved bases, reviewed by the Finance Department, and submitted to the Board for approval in December each year. For Divisions' and Areas' non-operational expenditure budgets the Board have not prescribed any definite method of preparation but have encouraged them to emulate the headquarters arrangements. In the case of training centres, laboratories and pithead baths, the Board also ask for separate budgets for each spending unit, intending that these units should prepare their own initial estimates.

CONCLUSION

(1) Budget preparation always involves a simultaneous two-way traffic—the transmission upwards of estimates for each unit, and the transmission downwards of higher-level decisions, until all are formed into a consistent, comprehensive programme of activities, expressed in terms of their financial implications.

(2) How this process works in different organizations must vary—in methods and in timing—according to their size and complexity, the range of their activities, the possibilities of forecasting demand or agreeing on standards, and the method of financing their operations.

(3) The process of budget preparation provides a convenient

opportunity, such as does not often arise in other ways, for making a comprehensive, forward-looking review of plans and standards at regular intervals. Hence it is important for every part of the organization, down to the lowest levels of supervision, to be associated in the preparation of estimates and to have their own separate budgets, within the master budget of the whole organization, for the functions committed to their charge.

CHAPTER V

THE REVENUE BUDGET: BUDGETING AND POLICY-MAKING

THE budget document is a tool for the administrator. Its main practical applications are in settling and reviewing the policies to be pursued and in exercising control over their execution. The budgetary system influences the timing and method of reaching policy decisions, and supplies data on which they can be based.

Budgeting and policy-making are radically different operations. The preparation of a budget is a regular exercise in which all the proposed activities are brought under review with special regard to their financial implications. The policy behind those activities, on the other hand, is the outcome of a vast number of decisions that have to be taken on specific issues as they arise—to expand or contract a particular operation, for example, or to introduce new services or adopt different techniques. Some policy decisions remain operative for many years or even decades, while other leading principles may have to be altered many times during the currency of a single budget. Circumstances are constantly changing and, while every effort is made to foresee these changes when preparing the budget, there will always be some points that cannot definitely be settled a year or more in advance.

THE BUDGET AS AN IMPETUS TO POLICY-MAKING

Planning Expenditure before Budgeting

In non-trading public authorities the primary reason for having a revenue budget is to be able to fix taxes, rates and charges for the year ahead at a level estimated to produce the right relationship between income and expenditure. In the central government, the pattern of taxation is settled at budget time and only in exceptional circumstances altered during the year. Local authorities fix their rates for a year at a time. In some English

councils the rate is formally imposed every half-year, but in practice the Estimates are always prepared on an annual basis and it is extremely rare for the rates to be changed halfway through the year.

A fixed income would not necessarily preclude an authority from spending more than originally planned on some items and less on others provided that the total spending conforms to the budget. Yet the difficulty of finding money for unbudgeted items out of a fixed income is a strong incentive to settle the general pattern of spending and the policies determining it before the budget has to be prepared. This means that when specific approvals are needed for new items or services they should as far as possible be obtained before preparing the budget in which provision for them would have to be made.

The Central Government. In the central government, the rule is that departments must obtain specific Treasury sanction for any new service or item of expenditure and for any change in policy involving additional expenditure. This is quite apart from the need for parliamentary approval of all expenditure on new and continuing services through the annual Estimates and Appropriation Act. In practice, the Treasury usually delegates authority to departments to approve new projects within certain limits, defined as to amounts and purposes, but above these limits Treasury authority must be sought. The object is to ensure that the more important cases are referred to the Treasury. It is also understood that departments should submit to the Treasury any cases within their delegated powers which have any novel or unusual features likely to be of special interest to the Treasury and therefore to deserve its attention. The Treasury in turn may decide that cases submitted for their sanction are of sufficient importance to require specific authorization by Parliament, and insist that the department seek fresh legislation accordingly.

The rule is that Treasury sanction should wherever possible be obtained before the item is included in the Estimates:

> 'A Department must not embark upon any new service without the sanction of the Treasury. Application for sanction

for a new service should not be delayed until Estimate time. On the contrary, the Estimate should theoretically contain only such items as have previously been sanctioned.'[1]

Thus departments are urged to look at their requirements well ahead in order to obtain any necessary Treasury sanctions before budget time. Although they cannot always foresee every need in advance, they are encouraged to try to do so by the difficulties of obtaining approval for additional expenditure later in the year.

Many of the items for which specific Treasury sanction is sought will be too small to merit the attention of ministers or Parliament. Major changes in spending, however, are usually the result of changes in government policy that require new legislation. Such proposals normally take many months if not years to reach the statute book, although in a real emergency urgent measures may be decided by the government and passed by Parliament in a few days or weeks. Usually, it takes the greater part of a parliamentary session for a Bill to pass through all its stages in both Houses. Much more time must be allowed beforehand for ministers to decide on the general line of approach and for their officials to work out the details of the Bill, while after the Act is passed there is still the task of setting up the machinery for its administration. The Act to set up the National Health Service, for example, was passed in 1946 but the Service itself could not be brought into operation until July 1948. Proposals for local government reform were announced by the government in 1956, but the Bill to give effect to them was not introduced until the 1957–58 session of Parliament and the main financial provisions were not scheduled to come into operation until April 1959.

Thus the desire to obtain Treasury sanctions before Estimate time is not itself the main reason why changes in government services are usually planned long ahead. This is more the result of the nature of government activities and the time normally required to bring new legislation into effect. The effect is that the annual Estimates are largely a reflection of spending plans that have already obtained the necessary ministerial and parlia-

[1] *Notes for the Use of Accounts Branches*, para. 179.

mentary approval and the appropriate financial sanction from the Treasury. In this respect, a government budget differs fundamentally from that of a trading undertaking which, though a reflection of current policy, tends to be regarded more as a starting point for deciding how current policies could with advantage be revised.

Local Authorities. Local authorities are in much the same position as the central government in so far as their Estimates for non-trading services are largely a reflection of agreed policy, changes in which are normally decided on before budget time. New suggestions are constantly being put forward throughout the year, considered by spending committees and, if approved, recommended to the council for authorization. The council's approval is generally understood to include a financial approval, except in so far as there may be a rule that further authorization be sought to incur liabilities exceeding £100 or some other specified sum, even though it is included in the budget. The procedure usually provides that spending committees' recommendations should not come before the council without an accompanying report from the finance committee on their financial implications. Most authorities have some such procedure—written or unwritten—although it is not always very rigidly enforced. Spending departments sometimes include in Estimates new items whose policy and financial implications have not previously come before the finance committee or the council.

When for other reasons new items cannot be properly examined before Estimates time special procedure may be followed. This happened in many authorities for poliomyelitis vaccination in 1957, when it was known at budget time that the new services would have to be provided but there had not been sufficient notice to make a precise estimate of the cost. An approximate figure was therefore included in the Estimates, on the understanding that contrary to the usual rule, approval of the Estimates did not confer authority to spend without further approval by the council. Reluctance to seek or to grant such special authorizations after the budget is passed provide a strong inducement to agree policies beforehand wherever possible.

Trading Undertakings. For non-operational branches of trading undertakings, the annual budget often fixes income no less rigidly than in non-trading public authorities and thus gives the same incentive to consider spending plans well in advance before the budget for the period has to be settled. In trading operations, where activities are dependent on consumer demand, the need to prepare a budget, however flexible, is equally important as an inducement to management to look forward in a systematic, comprehensive way. It compels them to assess future prospects and consider plans and policies to meet any situation likely to arise.

Re-examining Plans while Preparing the Budget

Policy-making is a continuous process. New ideas and changed circumstances constantly force those in positions of responsibility to reconsider particular aspects of their objectives and plans. But the combined effect of all these isolated decisions may only become apparent when their financial implications are summarized in the budget. Only then is it possible to decide whether in the aggregate they would cost more than the authority is prepared to spend and, if so, where economies should be made. Budget preparation consequently provides a valuable opportunity for reviewing spending plans in the light of their total estimated costs.

'Economies' in this context may be sought either through reduced output or through increased efficiency. In the first case the service to the public is curtailed in some way. The opening hours of museums and art galleries or local offices of a ministry may be shortened, less may be spent on books for schools and public libraries, or fewer postal deliveries may be made. Alternatively, expenditure may be cut without reducing the scale or quality of the service. Typing services may be reorganized to handle the same volume of correspondence with fewer staff, or hospital dietaries revised to give equally nourishing and appetizing meals at a lower cost. The boundary between policy and efficiency questions is not always easily defined and is different at different levels of authority within any organization. What appears as a major issue of policy to those in charge of a particu-

lar service will often be regarded by their superiors as a matter of operating efficiency. Wherever the question of pruning a budget arises, however, it has to be looked at from both points of view. The scope for increased efficiency should never be overlooked as it may well yield all the savings that are required. But where really drastic pruning is called for, it is unlikely to be achieved without cuts in the services provided as well.

A Trading Undertaking. In British Overseas Airways Corporation, budgeting and the planning of services go hand-in-hand. No Operational Plan is approved unless the panel of chief officers are satisfied with the estimated financial results. Proposals to start, expand or re-route services and their financial implications would normally be examined by the Planning Group and adopted or rejected by top management as and when necessary. This may well be before preparing the Budget, in which the effects of these decisions are shown and can be reviewed in the light of their impact on the aggregate net earnings. These are considered at two stages. First, the draft Operational Plan is immediately translated into a Pilot Estimate of the financial results. The Plan will not be approved unless the Pilot Estimate is satisfactory. Several revisions of the Operational Plan may be called for before finding a financially acceptable pattern of services. Even then, this check on the broad plans and estimates is not a sufficient guarantee that the detailed plans will show an equally favourable financial result. When the complete budget is assembled in draft, the chief officers have another conference to consider what further adjustments might be made to improve estimated net earnings, and further cuts in the least profitable services or in non-operational expenses are usually called for. Thus the Budget—first in outline and then in detail—helps to keep spending plans consistent with their statutory obligation to 'break even' on revenue account.

Non-Trading Authorities. For non-trading authorities, the main object in reviewing spending plans at budget time is not to 'break even' but to bring the total estimates down to the amount they can afford or have been allocated to spend. Although they are normally expected to include in their estimates

only such items as have already received specific sanction, all the items thus approved will not automatically be allowed to go into the budget as their total cost may well be more than the authority are prepared to spend during the year ahead.

The greater part of an authority's estimated expenditure cannot be altered by decisions taken whilst the budget is being prepared. No public body can suddenly dismiss a large slice of its staff or close down services in defiance of statutory or international obligations. Even if consideration of the budget leads to decisions to revise legislation or foreign commitments, the necessary amendments can seldom be carried through in time for the full effect to be felt in the year immediately ahead. To prune the estimates, therefore, means first of all picking out from among the strictly unavoidable expenses the far smaller proportion of items which are capable of being reduced, abandoned or deferred. The rest is essentially an exercise in determining priorities among the second group to decide which should have first claim to any funds remaining after the unavoidable items have been covered.

This type of policy review is clearly illustrated in the hospital service. Forecasts of expenditure for the coming year are prepared in a form which segregates the bulk of the 'prunable' items under the heading 'Developments and Improvements not resulting from new capital development'. This is where practically all the cuts involving policy changes, as distinct from corrections of bad estimating, have to be made. Hence, the Ministry and the Regional Hospital Boards ask hospital authorities to include in their Forecasts list of individual items under this head, and pay special attention to them when making their Allocations.

Some Regional Boards also ask Hospital Management Committees to pick out from their Forecasts for maintaining the service at the existing level any 'special items' which are not strictly unavoidable such as purchases of furniture and equipment or building maintenance jobs which are not a regular charge to revenue every year. The Regional Board ask for lists and individual estimates of all these items and deduct their cost from Management Committee Forecasts, in order to assess

their irreducible minimum expenditure on hospital running costs. The Board can then examine separately the justification for each 'special item' and make their final allocations to Management Committees in the light of the relative merits of their proposals—whether, for example, A needs new sterilizing equipment more than B needs some extra washbasins or C to have its entrance drive resurfaced. Where the Regional Board does not maintain such controls, Management Committees are themselves compelled to review any marginal items in their spending plans when they come to prepare their Estimates within their Allocation, as this is normally less than their initial Forecast of expenditure for the year.

Government departments and local authorities must likewise review their plans when budgeting to distinguish most essential items and decide priorities among them. The procedures are seldom so formally defined as in the hospital service. Thus government departments, in assembling their Estimates, note how much represents unavoidable commitments, which items they could reduce if pressed, and whether these economies would involve major revisions of government policy. In this way they are prepared for the ensuing discussions with the Treasury or in the Cabinet when they may be asked to reduce their Estimates on grounds of national economic stringency.

Local authority spending departments may also work out priorities among non-essential items in the course of preparing their Estimates. Sometimes, however, the main work of distinguishing these falls upon the treasurer and the finance committee. This is especially true in smaller authorities and services where spending departments tend to rely more on the treasurer for guidance in all financial matters. Some treasurers prepare a brief for the finance committee listing the items which could be struck out if any deletions are needed, and the finance committee report to the council recommending detailed alterations in the Estimates. Elsewhere, the finance committee concern themselves mainly with the total level of the Estimates for each main service, leaving spending committees to say exactly where the desired cuts can best be made.

Deciding the Revenue Required

In government departments and local authorities, the review of spending plans at budget time goes hand in hand with the process of deciding the revenue required. This is one reason why their procedures appear less clearly defined than those of the hospital authorities who do not raise their own revenue and consequently have only the expenditure side of their budgets to settle. They are spared the responsibility of fixing their own income—with all the economic, social and often political consequences which this may entail.

Local Authorities. Local authorities have much less discretion than the central government in deciding the amount and forms of revenue to be levied. As they can only levy rates on real property they have no choice between alternative forms of taxation. They also have a statutory obligation to levy a rate sufficient to cover all expenses chargeable to revenue in the year and to provide a working balance, after allowing for surpluses or deficits from previous years. They are not allowed to budget deliberately for large surpluses or deficits.

Nevertheless councils have a considerable amount of flexibility in fixing their rates. First, they are free to decide what the working balance ought to be, and to vary this amount from year to year. Secondly, they have some discretion as to exactly which expenses should be charged to revenue and in what years. Thus they may decide to finance part of their capital expenditure from current income—a very common practice for smaller items. Again, many councils have built up special capital or repairs and renewals funds from annual contributions from the Rate Fund. The maximum annual contribution is generally prescribed by statute, but the authority may decide to contribute less than this in a particular year and so influence the rate required. All these devices, of course, are in addition to the most obvious means of adjusting the rate required by direct cuts in the planned expenditure provided for in the estimated Rate Estimates of the spending committees.

Having agreed on the total estimated expenditure to be charged to revenue in the year, the council still have some discretion to vary the amount falling upon the rates by

adjusting the direct charges to recipients of their services, such as payments for home helps or admission to public baths. With the notable exception of housing rents, income from charges is usually considered too small a fraction of current revenue to justify a regular annual review of price and tariff policy before fixing the rate. Income from rents must be estimated when budgeting because it determines what subsidies, if any, must be paid from the Rate Fund to the Housing Account. But the level of rents need not necessarily be reviewed each year. In one large Scottish city the rents charged in 1958 were still at the same level as in 1938. But as Housing Account estimates must be drawn up annually to determine the Rate Fund contribution, the council have an opportunity then to consider whether rents ought to be revised and the effect upon the amount to be demanded from the ratepayers.

The decision to revise—or not to revise—housing rents raises important issues of social policy that can ultimately only be resolved by the council itself. The policy adopted may be worked out informally through political party machinery or other unofficial consultations among the majority of the council. The treasurer's and spending departments endeavour to keep all members impartially informed of the probable consequences of the alternative courses of action. But political and electoral considerations usually mix with administrative and financial motives in determining the final decision on any issue affecting the total rate required. To maintain the rate at the same level for several years, for example, does not merely simplify administration but tends to check public criticism of the cost of local services. In county councils, where elections are held triennially, there can also be a temptation to hold down the rate as far as possible in an election year. This may lead the council to budget for larger balances in the other years in the hope of starting the election year with a good sum in hand.

The Central Government. Decisions as to raising revenue are of much greater importance in framing the national budget. Unlike a local authority the government is free to budget for a surplus or deficit. Nor is it tied to one main source of revenue. An immense variety of taxes and direct charges are imposed

and the Chancellor can always ask Parliament to add entirely new ones if he so desires. Moreover, government transactions are on such a large scale that the volume and direction of government spending and taxation has profound effects on the whole national economy. No national budget can be framed without regard to the far-reaching economic and social implications of both the relationship between income and expenditure and the alternative means of raising the revenue required.

The relationship between revenue and expenditure has become a point of major policy only within the last generation. The idea that the budget could be a vital weapon for regulating the national economy began to be propounded by economists in the 1930s, but was not accepted as official policy until the Second World War. From 1940 onwards fiscal policy was deliberately designed as a weapon to restrain inflation, and in 1944 the Coalition Government's White Paper on *Employment Policy* explicitly recognized that 'a rigid policy of balancing the Budget each year regardless of the state of trade' would be incompatible with the economic well-being of the country.[1] This has remained a basic premise in the budgetary policy of all subsequent governments. It compels them to consider an immense range of new issues before deciding what shape the budget ought to take. In this respect, current expenditure on Supply Services cannot be regarded in isolation, but must be examined in relation to the whole field of government financial transactions—capital as well as current and 'below the line' as well as 'above the line' payments and receipts.

This radical change in the approach to budgeting has been described by a former Permanent Secretary to the Treasury, Lord Bridges, as follows:

> 'Before World War II its relationship to the rest of the Government policy depended almost entirely on the fact—no doubt a very important fact—that the Chancellor had in his Budget to find the cost of any new Government measures. . . . Today the estimates scrutiny goes on as usual; but the central strategy of the Budget comprehends a balance between,

[1] Cmd. 6527/1944, para. 77.

on the one hand, various types of demand—investment, consumption, Government expenditure and exports; and on the other hand supply—domestic production and imports. A balance must be reached in such a way that the two sides of the equation do not merely balance—as indeed in the end they always must—but balance in a way which is to the national interest—so that adequate savings will be available to finance investment, and that the import-export ratio is compatible with a sound balance of payments.'[1]

Thus departments' expenditure proposals have to be looked at in relation to the prospective level of employment, prices, foreign trade and capital movements. The government must decide whether to budget for a surplus or a deficit to counterbalance inflationary or deflationary trends. If, as has generally been the case since the Second World War, they agree to seek a surplus, they must decide how large this ought to be and to what extent it should be found by increasing revenue or by reducing expenditure.

The next task is to decide how the agreed amount of revenue can best be raised. The revenue departments' estimates of the yield of existing taxes will show how much extra revenue must be sought by new or increased taxation or how much tax relief can be afforded. Attention then focuses on where the additional burdens or reliefs should fall. The government must weigh the relative merits of direct or indirect and progressive or regressive taxes in the light of their distinctive economic and social effects, and consider how far to vary the charges for services rendered rather than altering general taxation.

Besides considering how to distribute tax increases or reliefs, the government is under constant pressure from experts and interested parties to reform the basic structure of taxation—to replace purchase tax by a sales tax, for example, or to restore initial allowances on capital investment, or to make children's allowances variable in proportion to income. Recent Royal Commissions on income tax and the taxation of trading profits

[1] Lord Bridges 'The Elements of Any British Budget', *Administration* (Dublin), Vol. 5, No. 2, Summer 1957, p. 15.

have recommended a large number of alterations in the tax structure, many of which were brought into effect in the budgets of 1956–58. The revenue proposals in the budget are thus the culmination of much thought and investigation as to the most effective means—economically, socially, administratively and politically—of raising total income desired.

All this calls for expert judgment in applied economics, backed by searching analyses of economic trends and prospects. For this ministers are supplied with expert advice and information from the Economic Section and other divisions of the Treasury, who in turn have consulted the experts in other government departments concerned with economic matters. The final decisions, however, depend upon the policies and judgment of the government of the day. Budgetary policy is thus in the last resort a matter for high level ministerial decision by the Chancellor of the Exchequer, the Prime Minister or the full Cabinet. The Cabinet themselves review the general scale of the departments' Estimates and other expenses to be provided for in the Budget. The proposals for raising revenue are largely left to be devised by the Chancellor of the Exchequer in an atmosphere of great secrecy. Usually only the Prime Minister and a few Senior Treasury officials are taken into his confidence until he explains his complete plans to the Cabinet only the day before he is due to present them publicly to Parliament.

Though the broad lines of the government's fiscal policy may be set beforehand, major issues may emerge while the Budget Proposals are under consideration. Twice in recent years these have proved sufficiently controversial to lead to the resignation of Cabinet ministers. In 1951 Mr Gaitskell's proposal to introduce charges for spectacles and dentures in the National Health Service resulted in the resignation of Mr Aneurin Bevan, although the majority of the Cabinet supported the Chancellor in introducing this means of raising additional revenue. In 1958, the Chancellor of the Exchequer, Mr Peter Thorneycroft, himself resigned when the Cabinet refused to reduce the coming year's Estimates as far as he considered essential to his policy of limiting government expenditure 'as a prerequisite to the stability of the pound, the stabilization of

prices and the prestige and standing of our country in the world'.[1]

The budget is not of course the only weapon upon which governments rely to influence the course of the national economy. Nor is it certain how far it has been or could be effective in attaining its objectives. Different parties and persons attach varying importance to fiscal methods, and it is impossible to isolate these wholly from other operative factors in order to measure their effects in any given situation. But the annual budget has become the medium whereby the government undertakes a regular, comprehensive review of every aspect of its activities. In the course of preparing the budget, decisions are reached on many issues affecting revenue or expenditure which play an important part in directing the course of government policy during the year ahead.

THE BUDGET AS A BACKGROUND TO POLICY-MAKING

Basic Data for Any Decision-Making

An approved budget gives the administrator a summary of the financial environment within which he has to work. It makes readily available to him information on many features of his organization's plans and prospects which need to be taken into account in considering any change in policy.

Changes in policy during the currency of a budget may be brought about from several causes. An authority may be compelled to revise its plans owing to events quite outside its control, such as increases in wages and salaries decided by national awards; changes in prices of raw materials or in the charges for services rendered by outside bodies; unexpected variations in the demand for the product or service, due perhaps to unseasonable weather or epidemics or hold-ups caused by breakdowns of plant, natural disasters or labour disputes. Another important factor is the influence of changes in government policy on the policies adopted by other public authorities. This is especially marked in local government where great use is made of ministry regulations and circulars to prescribe the terms and conditions on which local services may or must be

[1] Letter to the Prime Minister, January 6 1958; *The Times*, January 7, 1958, p. 8.

provided. Other changes may be the result of new ideas and suggestions originating within the organization itself—a new method of doing a job or a change in the range of products or services offered.

The response to all such new developments or proposals has to be considered with regard to their financial implications. These can most conveniently be assessed in terms of their impact on the budget. The task of estimating their financial effects is thereby simplified, because most of the relevant calculations will already have been made and it only remains to revise the budget estimates to allow for the change in question.

The budget also helps to ensure that new developments are considered with regard to their effect on future prospects, as distinct from what effects they might have had in the past. The cost of a wage award, for example, should be estimated by reference to the numbers likely to be employed in the current or future years. In some organizations it has been customary to begin by considering how such developments would have affected the actual results achieved in the previous year. But there is then the difficulty of making allowance for variations in the level of activity between one year and another. This is avoided by working from the budget which is already geared to the volume of activity expected in the current year. Looking at the budget also guards against overlooking the more indirect financial repercussions of any change. Thus in a transport undertaking, a new service might appear profitable at existing levels of wages and prices, but looked at in its wider context the additional net earnings may be more than offset by the cost of overtime.

Both trading and non-trading public authorities are endeavouring to create a general state of 'budget consciousness' in which the automatic response to any new development or proposal is to ask how it would affect the budget. The motive behind this question will depend on the purpose of the budget itself. Where it restricts total expenditure, the important point is whether the new item falls within the original plan and if not whether compensating savings could be made. The possibility of such savings will normally decide whether any desirable

but not strictly unavoidable expenses can be approved. A Hospital Management Committee, for example, may decide whether to replace out-of-date medical equipment according to whether they can find the extra money by cutting down on building maintenance or buying new furniture. Trading undertakings, not being tied to a fixed total income and expenditure, are more concerned with how new developments are likely to affect their profitability, as reflected in their budgeted net surplus or deficit for the year. They often have more opportunity than non-trading authorities to adjust their income by varying charges. But they also seek to offset increases in costs by economies in working wherever possible.

Besides considering new developments and proposals in relation to the budget as they arise, there is room for regular annual reviews of policy on the basis of the data revealed in each successive budget. Particularly important are the reviews of prices and costs which have become a normal sequel to budget preparation in several of the nationalized industries. Here, as in preparing the budget, questions of financial policy and efficiency are inextricably interrelated. The following sections refer to some of the main questions likely to arise.

Measures to Increase Efficiency

In both trading and non-trading undertakings the budget can serve as a starting point for action to reduce costs or offset increased costs by improvements in efficiency. Estimates can be compared with some kind of standard costs, with the estimates for comparable units within or outside the undertaking, or with expenditure by the same unit in the previous year. These tests show where the estimated expenditure appears inexplicably high. The most marked anomalies can then be selected for detailed inquiries with a view to discovering whether any changes in policy or methods might help to lower costs.

Some local authorities make a practice of noting any apparent cost anomalies in their Estimates for investigation after the budget has been approved. In one county borough, queries into the estimates for heating schools led to a comparative study of the costs of heating at individual schools, some search-

ing inquiries into the economies of different kinds of heating systems, and consequently representations to the Education Committee to review their policy in this regard. On another occasion, inquiries into an estimated increase of expenditure at the College of Art led to a close examination of the ratio of staff to students. This brought to light a large number of classes with very few students and resulted in the establishment of a minimum standard of numbers per class and the discontinuance of some existing classes.

The National Coal Board are developing similar techniques of following up cost variations in their non-operational expenditure budgets. They usually start by comparing the estimated unit costs for particular items or services in the budget of different Divisions, Areas or individual spending units for the same period of time. A study of wages and salaries at medical centres, for example, revealed that in some Areas the full complement of staff was on duty seven days a week. This led the Board to issue instructions forbidding unnecessarily extravagant manning at weekends. Special attention has been given to expenditure on staff generally, and where costs appear unduly high or low the Board's Staff Department has been asked to institute inquiries into present staffing levels. Other policy issues raised by the budgets and now receiving further study include the organization for Area and Divisional scientific work, fuel and manpower requirements for pithead baths, and the staffing of training centres.

These inquiries have to be carried out as a continuous process throughout the year. Sufficiently searching investigations into the scope for increases in efficiency cannot be crowded into the period between the initial preparation of the budget and its approval by the governing body. But the budget serves to pinpoint the items most deserving of investigation and to supply the figures upon which more detailed inquiries and comparisons can proceed after the budget itself has been formally approved.

Fixing Tariff and Charges

In trading undertakings, the budget can also be a starting point for reviewing financial policy in the light of estimated net

earnings. Whereas in non-trading public authorities the budget is based on the rates and taxes proposed for the coming year, trading undertakings normally draw up their budgets on the assumption that existing tariffs and charges will continue. Then, when the budget has been approved, they proceed to consider the desirability of altering prices or other related aspects of financial policy such as the extent to which they shall aim to finance capital expenditure from internal resources.

These reviews have proved one of the most important benefits of budgeting in private firms. The nationalized industries have found them of great value in showing where changes in financial policy are called for if they are to fulfil their statutory obligation to pay their own way, taking one year with another. In this connection, price policy has to be considered in conjunction with inquiries into improved efficiency so that additional costs are as far as possible offset by greater efficiency and not automatically passed on in higher prices to the consumer.

The budget enables the adequacy of tariffs and charges to be re-examined regularly with regard to the estimated surplus or deficit for a future period, instead of waiting until this appears in the actual accounts before deciding on corrective measures. When the general level of prices is rising or falling, it becomes especially vital to settle price policy with a view to future expectations and not on the results of previous periods when costs and circumstances may well have been very different.

In the nationalized industries there is an additional incentive to look well ahead in framing tariff policy. The time lag between the board's initial decision to seek higher charges and the time when these can be put into operation is lengthened by external controls. The British Transport Commission have to have their draft charges schemes approved by the Transport Tribunal. The National Coal Board are bound by their 'Gentlemen's Agreement' not to increase the general level of prices without the agreement of the Minister of Power. Gas and electricity area boards have a statutory obligation to refer any proposed change in tariffs to the consultative council, representing consumers in the area. As most of their revenue is collected on the

basis of past consumption, they have to allow for a further time lag before all consumers are paying at the higher rates. Altogether, they reckon that at least six months must elapse after deciding to seek higher charges, before they can begin to reap the full gain in revenue.

In the National Coal Board, financial policy for the coming year is regularly considered when the Annual Forecasts of Financial Results are presented to the Board. In his accompanying report, the Director-General of Finance draws attention to the estimate of financial result at current prices and whether any revision of prices or other changes in policy appear to be called for. In the gas boards the budgets presented to the boards for approval focus attention on the estimated net earnings. If a deficit is indicated, steps may then be taken to amend the existing tariffs. In both cases, the changes would not be considered in detail until after the budget had been approved and not as part of the process of settling the budget itself.

The main use of area electricity boards' Trading Estimates has been in reviewing and, where necessary, revising their tariffs for supplies to consumers. Any prospect of a deficit is reported to the Board as soon as it becomes apparent. There can then be a full-scale tariff review at Board level using the information available from the Trading Estimates and supplementary calculations of the effects of different increases in charges. The Central Electricity Generating Board prepare special Tariff Estimates each autumn for guidance in fixing their charges for bulk supplies to Area Boards for the following year. Whereas other nationalized boards will often reconsider their charges at other times of the year if major changes in earnings or costs occur in between the regular reviews, this Bulk Supply Tariff is always firmly fixed for a year at a time. Flexibility is provided by including 'fuel price variation' and 'maximum demand' clauses, under which the charge for supplies will automatically vary with the cost of fuel and the exent to which the simultaneous maximum demand varies from the estimates.

For the airways corporations, charges are laid down by international agreement between all operators. The Interna-

tional Air Transport Association hold an annual Tariff Conference each autumn to agree on charges for the coming year. As this is before the corporations have prepared their normal annual budgets, special revenue budgets giving a broad forecast of costs on different routes are drawn up as working memoranda for the tariff negotiations.

The Post Office, as another major trading concern, use the Commercial Forecasts, prepared centrally from their detailed cash Estimates, to see whether revenue will be sufficient to cover estimated expenses and, if not, to decide what tariff increases or other changes are required. These reviews are made when the Commercial Forecast is first produced before the beginning of the year, and periodically during the year.

Among local authority trading undertakings surprisingly little use appears to be made of an annual budget as a convenient basis for regular reviews of charges. An extensive survey by the Institute of Municipal Treasurers and Accountants found 'little evidence that local authorities have an annual review of their scale of charges'.[1] Water supply undertakings are an exception, since they have to levy an annual water rate calculated to cover their estimated expenditure on revenue account during the year. Other trading departments often re-examine charges only when there has been some major wage award or other increase in operating costs, or when the accounts have shown a decline in actual earnings. On these occasions, budgets are often prepared in order that the new charges can be based on future expectations. These *ad hoc* forecasts are the only budgets ever prepared. Where trading undertakings do prepare regular annual budgets, however, they have proved valuable in enabling the need for changes in policy, especially charging policy, to be foreseen before they reveal themselves in the accounts. They also have important benefits in controlling the execution of policy, as will be examined in the following chapters.

CONCLUSION

The budget documents and the budgetary system should exert

[1] *The Revenue Budget* (1954), p. 11.

a continuous influence on the decision-making process by providing:

(1) Inducements to look ahead and agree on objectives and standards before budgeting.

(2) Occasions for reviewing the total financial impact of isolated decisions, and for modifying them if this should appear desirable in consequence.

(3) Up-to-date summaries of financial prospects readily available when deciding how to respond to any new developments or proposals.

CHAPTER VI

THE REVENUE BUDGET: MODIFICATION AFTER APPROVAL

THE approved budget not only provides top management with basic data for policy-making but also lays down the results which each part of the organization is expected to attain. It defines the responsibilities of subordinates and provides criteria against which their actual results will be judged. Its value depends on its being regarded as a firm plan, forecast, authorization or yardstick which cannot normally be altered once it has been approved and enacted by the governing body.

In practice, however, it has to be recognized that even the most highly efficient estimating cannot guarantee that the right provision is made for every eventuality. Some unforeseen new development may necessitate alterations in the services provided, the scale of operations undertaken or the cost of goods and services employed. It is not always possible or appropriate in these circumstances to make offsetting adjustments in spending plans so as to adhere to the main totals in the budget. The extent of these unavoidable changes is generally small in relation to the total budget. Nevertheless, budgetary systems have to provide for the exceptional cases by arrangements for modifying the budget after it has been approved. The most usual methods are those known as supplementary estimates, virement and budget revisions. This chapter examines each of these in turn. These facilities are not intended to undermine the general principle that the original budget is to be adhered to, but to ensure that should this prove impossible the necessary changes are properly reported and authorized.

SUPPLEMENTARY ESTIMATES

Supplementary estimates are the device whereby the governing body authorize some addition to the budgeted expenditure.

They may be entirely new items or subheads, or additional expenditure for purposes for which the original budget provision proves insufficient. In either case, the rule is that supplementary estimates should not be sought unless the expenditure is absolutely unavoidable, and that in this case it should not be actually incurred until the supplementary estimate has been approved by the governing body.

The Central Government

The annual Appropriation Act authorizes departments to spend up to a specified amount for the purposes defined in each Vote of the Estimates. A department may neither spend more than the sums approved nor incur expenditure for purposes outside the ambit of an approved vote without seeking further authorization from Parliament by means of a Supplementary Estimate. The Treasury may also insist on Supplementary Estimates for expenditure which, although within the amounts and purposes of an approved Vote, was not contemplated when the Estimates were prepared and upon which they consider that Parliament would wish to have been consulted beforehand. Sometimes the Treasury inform departments that a Supplementary Estimate will not suffice to authorize expenditure on the purposes in question, and requires them first to obtain parliamentary authority for the new service by means of a special Act of Parliament.

A department seeking a Supplementary Estimate must first obtain the approval of the Treasury. The Treasury itself presents to Parliament all Supplementary Estimates for civil and revenue departments. Those for defence departments are presented by the departments themselves, after obtaining the approval of the Treasury and the Ministry of Defence.

The procedure in Parliament is similar to that on the original Estimates. Supplementary Estimates must first be approved by the House of Commons in Committee of Supply. Legislation is then passed to give statutory authority for the requisite issues from the Exchequer and to appropriate them to the purposes of particular Votes. Normally Supplementary Estimates are presented in two groups. The first set is presented in June or

July in time to be provided for in the Appropriation Act passed before the summer recess. The second group is presented in February. Before the financial year ends on March 31, they are approved by the Committee of Supply and a Consolidated Fund Act is passed to allow the necessary sums to be paid from the Exchequer. The issues thus authorized in total are later appropriated to particular Votes in the next Appropriation Act, after the beginning of the new financial year.

Supplementary Estimates may be debated by the Commons on a Supply Day, but these are traditionally reserved for discussion of general issues. The House relies on the Treasury to undertake the detailed examination of departments' requests for Supplementary Estimates. Treasury approval is by no means a foregone conclusion and would only be given if the Treasury were satisfied that the additional expenditure was strictly unavoidable and could not be offset by savings on other Subheads of the Vote. When seeking a Supplementary Estimate, departments are normally expected to revise their estimates for every Subhead in the Vote so that the possibilities for compensating savings automatically come under review.

The Supplementary Estimates presented to Parliament are set out under the same Votes and Subheads as the original Estimates. The difference between the original and revised Estimates is shown for each Subhead, with a brief explanation of the cause. The reasons given generally fall into one of three categories. Some are for new services reflecting policies adopted after the Estimates were presented. Examples of these in 1957–58 included provisions for the newly-established Council on Productivity, Prices and Incomes and the Royal Commission on Local Government in the Greater London Area—both of which were set up during the year; for carrying out a new agreement to provide free training facilities for Pakistani technicians and service personnel; and to give effect to new legislation for grants in respect of farming improvements and amalgamations. Other Supplementary Estimates are sought to meet additional demands on an existing service, for example where local authorities' expenditure ranking for grant exceeds their original forecasts. Finally Supplementary Estimates may be occasioned by

increases in the cost of providing the same service, such as wage awards or rises in prices.

Inflation always tends to increase the demand for Supplementary Estimates, as the original Estimates have to be based on the wages and prices current at the time they are made. Departments are nevertheless expected to meet higher costs by offsetting reductions in expenditure whenever possible. Even in the sustained inflation of recent years, Supplementary Estimates have remained small in relation to total expenditure. Their effects on total estimated expenditure have sometimes been further reduced by downward revisions of other Votes. The following table shows the position for civil and revenue departments:[1]

	Supplementary Estimates		*Savings by Revised Estimates (£ 1m)*	*Estimated Expenditure (Original plus Supplementary) (£ 1m)*
	Number	*Amount (£ 1m)*		
1953–54	74	236	8	2,667
1954–55	80	42	27	2,732
1955–56	86	100	0	3,048
1956–57	115	130	35	3,413
1957–58	97	145	14	3,296

In none of these years did the Supplementary Estimates amount to as much as 10 per cent of estimated expenditure and they were often to a considerable extent offset by downward revisions of other Estimates. Underspendings on other Votes still further reduced the net addition to the expenditure to be financed from the Exchequer.

The Hospital Service

At the start of the National Health Service, hospital authorities' expenditure was far more than their Allocations and approved Estimates, and the health departments had to ask for large Supplementary Estimates. In 1950, however, they made it

[1] Source: *Supplementary Estimates, Civil Appropriation Accounts, Revenue Departments' Appropriation Accounts.*

known that in future they would refuse as a matter of principle to consider asking for Supplementary Estimates for the hospital service. Since then Boards of Governors and Regional Hospital Boards have had to work on the assumption that all increases in expenditure, from whatever source arising, must be contained within the original allocation. An exception is made for wage and salary awards, and for increases in prices as measured by the departments' hospital price index. At first such contingencies were provided for by including in the original allocations a sum for increases in costs likely to mature during the year. Following objections from the Public Accounts Committee in 1953–54, the Estimates may provide only for wage awards already known. Allocations have been based on wages and prices current at the time they are made, and supplementary allocations have been made to allow for any changes during the year. There is an understanding between the health departments and the Treasury that the Treasury will normally agree to present a Supplementary Estimate if necessary for this purpose. These were in fact obtained in 1955, 1956 and 1957. The understanding also provides for the downward revision of allocations in cases of decreases in wage and salary rates or in prices, but there has so far been no occasion to put this into effect.

Hospital Management Committees in turn receive supplementary allocations from their Regional Hospital Board to cover increases in prices or rates of remuneration. In addition, Regional Boards usually hold back a small part of the Management Committees' share of their allocation as 'regional reserves'. The part of the allocation designated for 'Developments and Improvements' is usually distributed only as approved schemes come to fruition. The same is sometimes done with the money budgeted for 'special items'. Many Regions keep a reserve for nursing staff, to cover any additional expenditure due to recruiting higher numbers than allowed for in the Estimates, provided always that the approved establishment for the hospital is not exceeded. Supplementary allocations for some of these purposes may be made by the Board during the year as the needs arise. When the Revised Estimates are prepared, they take stock of the amounts remaining in reserve and any additional sums

available from Groups who do not expect to spend their full Allocation. The total sum remaining can then be distributed to the Groups who appear able to use it to the best advantage. Groups may then be asked for a second set of Revised Estimates, showing how they plan to use their revised Allocation. These are approved by the Board as the budgets to which Committees must work for the rest of the financial year. No supplementary Allocations are available after this unless more money is received for wage and price changes or underspendings are discovered in other Groups.

Regional reserves thus provide an additional element of flexibility in the budgets of Hospital Management Committees. But the amounts available to Hospital Management Committees from all these sources have always been too small to detract materially from the general rule that no hospital authority can expect to be allowed to add to their approved budget during the year except in respect of wage and price changes. In the aggregate there has been little overspending of the departments' cash Estimates, including Supplementary Estimates for advances to hospital authorities. Between 1951–52 and 1956–57, the amount voted for English Regional Boards was always underspent, by amounts varying from nearly 6 per cent of the Estimate in 1952–53 to about one-eighth of 1 per cent in 1956–57. The Estimate for advances to Boards of Governors was overspent in two of the six years, but in both cases the excess was well below 1 per cent of the amount voted.

Local Authorities

In most local authorities spending committees are expected to obtain prior authorization for any expenditure not provided for in their Estimates. For this purpose Supplementary Estimates are drawn up and presented to spending committees, the finance committee and the council, in much the same way as the original Estimates. In some instances, however, the finance committee has delegated powers to approve Supplementary Estimates without reference to the Council.

The general principle is that, since the rates are fixed for a year at a time, additions to budgeted expenditure cannot be

allowed during the year unless strictly unavoidable—either to meet unforeseen demands on the service or to cover increased costs due to wage and salary awards or price changes. The finance committee and the treasurer normally regard it as part of their duty to see that this rule is adhered to by scrutinizing requests for supplementary estimates to make sure that the extra items cannot be deferred, and keeping watch to see that supplementary estimates are sought if it appears unlikely that spenders will be able to keep within their Estimates.

Councils vary considerably in how strictly they insist on supplementary estimates. This is obviously affected by the wide disparities in the amount of detail included in the Estimates and by the varying facilities for transfer between items within the same main headings of the budget. In addition, a definite figure —perhaps £50 or £100—is sometimes laid down in Standing Orders as the minimum excess below which no supplementary estimates are required. Even if there is no such rule, the treasurer usually has some discretion not to insist on supplementary estimates for very small amounts. He is expected to bring before the council anything of which they would have wished to be informed because of the amount or purposes of the excess, but at the same time to see that they are not so overburdened with trivial excesses as to be unable to give proper attention to those of greater importance. This is a very real danger when the Estimates are approved in such detail that a number of minor variations are almost inevitable.

Some councils require supplementary estimates only for excesses due to unbudgeted work or purchases, leaving committees free to overspend their Estimates without further authorization provided that they do not go outside the purposes for which expenditure was originally approved. They are not called upon to justify increases due to wage and price changes that were beyond their control. This has the disadvantage that the council and the finance committee are not informed of the probable effects of these increased costs, which are usually the chief cause of variations from the budget, and there is no check on how far the increases are really unavoidable and not attributable to inefficiency or capable of being offset by greater efficiency or

other reductions in spending plans. Some councils have a special procedure for supplementary estimates in respect of wage and price changes affecting many services to be initiated centrally by the treasurer and presented directly to the finance committee. This focuses attention on their total effects and spares each spending committee from preparing detailed estimates but still has the disadvantage of leaving them no incentive to find compensating savings to offset the increased costs.

Among the authorities specially studied in the course of this research, it appeared that in recent years large numbers of supplementary estimates have generally been sought. The vast majority were for increases in rates of remuneration or price changes and there was in fact a high degree of restraint in not seeking to incur expenditure for purposes not provided for in the original Estimates. In 1956–57 for example, one county borough spending nearly £4 million had supplementary estimates totalling £138,000, spread over more than 450 different items in the budget. In another authority spending over £30 million the total supplementary estimates amounted to £203,531, covering no fewer than seventy-four separate items in the Estimates apart from the two largest services, education and health, for which the published summary of supplementary estimates was not analysed by subheads. That such large numbers of supplementaries amount to a relatively small proportion of total expenditure—approximately 3½ per cent and 0·6 per cent respectively—is a reflection of the great detail in which expenditure is originally budgeted and approved.

The usual arrangement for financing excess expenditure is to include in the Estimates a central contingency provision to meet the estimated total effect of changes during the year. Spending committees are normally expected to base their Estimates on the costs ruling at the time they are prepared and not to include any margin for contingencies. This ensures closer control of committees' expenditure and greater accuracy in estimating the total rate required. The central contingency provision can be less than corresponding departmental provisions would need to be, since allowance can be made for underspendings by one committee to offset overspending by another.

The Nationalized Industries

Supplementary estimates procedures in trading undertakings are generally confined to budgets for fixed or semi-fixed expenses which do not vary directly with output. For these it is possible just as in non-trading undertakings, to regard income as fixed by the approved budget, so that expenditure must also adhere to the budget in order to keep within the available income and to comply with the agreed standards of service. This may be done by insisting that no budget be exceeded without a supplementary estimate, which will only be granted if it can be shown to be impossible to keep within the budget originally authorized.

Thus the National Coal Board have a system of supplementary budgets for their budgeted non-operational expenditure. The budgets for each spending unit are based on current costs, with no allowance for wage and price increases or other contingencies. Any expenditure in excess of the budget requires prior authorization by a supplementary budget. Divisions are empowered to approve supplementary budgets within the limits of a Divisional Contingency Fund: supplementary budgets above this limit can only be authorized by national headquarters. Until 1957 Divisions were also authorized to approve supplementary budgets without limit where the increase was due to changes in national policy or in the degree of utilization of services. These facilities have now been eliminated in order to encourage spenders to find economies to compensate for increased costs.

Supplementary budgets are also required by those area electricity boards who use Revenue Expenditure Budgets to control expenses not directly dependent on sales of electricity. One board's financial regulations require prior approval for any expenditure outside the amounts or purposes authorized in the budget, except for certain items outside the control of the board such as wage awards or emergency repairs which must be reported for approval retrospectively. The Central Electricity Generating Board now require supplementary estimates on their Revenue Budgets only in respect of salary and wage awards and increases in fuel costs, including freight charges.

Other changes in the Revenue Budgets are dealt with in the periodic Budget revisions, when expenditure authorized by Supplementary Estimates is absorbed into the revised Budgets.

Budgets of total income and expenditure in a trading undertaking are usually flexible, to allow for the effects on variable costs and income of any change from the budgeted level of activity. Hence it would be inappropriate to insist on supplementary estimates to authorize any departure from the budget. There may also be less need for supplementary estimates to inform top management of increased expenditure arising from wage and salary awards or price changes, as contingency provisions to cover these are sometimes included in the original estimates.

General Considerations

Supplementary estimates are the means of authorizing those departures from the budget which at times are unavoidable in order to give effect to changes in policy or to adhere to the same policies when costs or demands on the service alter during the currency of the budget. They are especially vital where the budget is a fixed authorization to spend and where the estimates are based on current wages and prices and do not provide for contingencies to meet changes expected during the year. Both these conditions are found in the central government and other undertakings such as the hospital authorities financed from money voted annually by Parliament; in many local authorities; and frequently for fixed and semi-fixed costs in trading undertakings. The procedure in each case has to be designed to focus attention on the more significant changes in the budget. It is important to distinguish (1) between controllable variations which spenders should be expected to justify in detail and uncontrollable variations where the main consideration is not whether they should be allowed but how they are to be financed; and (2) between really substantial variations and the minor modifications which can better be dealt with through simpler procedures at lower levels in order to let the governing body concentrate upon variations calling for major changes in policy or measures to improve efficiency.

VIREMENT

'Virement' is a term derived from the old French word *virer* meaning to turn or transfer. It is a device for allowing spenders to transfer sums from one subhead or item to another within the same heading of their approved budget. This gives an additional measure of flexibility to adjust spending plans to meet new developments during the year. Since it does not affect total spending, virement is usually authorized by some intermediary higher authority between the governing body and the spender—the Treasury in the central government and the finance committee in a local authority.

The Central Government

In the central government the Treasury has power to authorize virement between subheads of the same Vote of the approved Estimates. A department wishing to obtain virement is expected to inform the Treasury as soon as overspending on any Subhead appears likely, so that they can examine the application and intimate whether it appears suitable for virement. At the end of December all departments have to report their probable excess or saving on each Subhead, and unless they see any objection in principle, the Treasury will give notice, that, assuming a similar position is shown in the final accounts 'My Lords . . . will be prepared to authorize the excess expenditure on Subheads . . . to be met from savings on Subheads . . .'.[1] As soon as the exact out-turn is known and before the Appropriation Accounts are audited, the department makes a formal application for Treasury sanction to virement of the precise amounts which it has been agreed in principle to meet from savings.

The defence departments have special facilities for virement between Votes, as well as between Subheads. The annual Appropriation Act empowers the Treasury temporarily to sanction virement from one Navy, Army or Air Force Vote to another, provided that any exercise of this power is immediately reported by laying a minute before Parliament. Parliament ultimately authorizes the transfers retrospectively, after the accounts are

[1] *Aguide*, para. 188.

audited, when a resolution approving the exact amounts transferred is moved in a special Committee of the Whole House on Navy, Army and Air Force Expenditure. This is later reported to the House and given statutory effect in the next Appropriation Act.

Virement between subheads in the Estimates for civil and revenue departments is not a power delegated by Parliament, but a discretion traditionally claimed by the executive. The Treasury do not have to report to Parliament how and when it is exercised, although it is understood that they will refuse virement and insist on a Supplementary Estimate for any excess which involves new items of expenditure not clearly within the ambit of the Vote, or whose size or purposes raise questions of principle which they consider should come before Parliament. In practice a number of applications are refused each year.[1] The Treasury warn departments not to assume that virement will be automatically sanctioned, and may tell a department in advance that any savings on a Subhead largely unrelated to the rest of the Vote will not be regarded as available to meet excesses elsewhere. The Board of Trade, for example, were warned not to ask for virement of any savings on a subhead for assistance to the the cotton industry where, owing to fluctuations in world prices, large fortuitous savings were liable to accrue.[2]

Allied to its power to authorize virement, the Treasury has the right to authorize the opening of a new Subhead in an existing Vote, provided it relates to services within the ambit of the Vote. Whether or not the Treasury agrees to virement for the opening of a new Subhead depends on the nature of the service —whether it is novel or contentious—and on the amount of money involved, either immediately or in future years.

Parliament on several occasions asked for some assurance that the Treasury would not abuse their power of sanctioning virement by concealing changes in the Estimates which Parliament might have wished to consider in detail. In 1951 the Public Accounts Committee, reported that:

[1] *Fourth Report from the P.A.C. 1950-51*, H.C. 241, Q. 4203n.

[2] *Ib.*, q. 4198.

> 'Parliament might well feel that a larger sub-division of Votes would be required if they could not rely on strict Treasury control in this matter. Your Committee trust, therefore, that the Treasury will limit their sanctions for virement to cases which they feel quite certain that Parliament would approve and will insist on Supplementary Estimates rather than approve virement between subheads providing for services of a different nature'.[1]

The Treasury have always refused to give precise undertakings on the grounds that it is:

> 'essential . . . in the interests of prompt and efficient administration that the Treasury's recognized discretion in the exercise of this power should not be unduly hampered by an attempt to prescribe specific and detailed limitations to what is essentially an act of judgment which must be exercised in the light of circumstances which will vary from one case to another'.[2]

The position has therefore been left:

> 'on the basis that the Treasury's discretion will continue to be exercised . . . with full regard to the necessity of maintaining intact Parliamentary control of public expenditure. If, for example, My Lords have any particular reason to suppose that the provision of additional funds would be controversial, whether by reason of the size of the excess expenditure or through any other circumstances, they would naturally think it proper that prior Parliamentary sanction should be sought by the presentation of a Supplementary Estimate'.[3]

Thus, the Treasury's prerogative remains a matter of mutual trust and understanding unshackled by any definite written limitations.

The Hospital Service

Hospital authorities can obtain permission to transfer funds

[1] *Fourth Report from the P.A.C., 1950-51*, H.C. 241, para. 12.
[2] *First Report from the P.A.C., 1951-52*, H.C. 85, Appendix, p. xvi.
[3] *Ib.*

between subheads in the approved Estimates by applying to the health departments in the case of Regional Hospital Boards and Boards of Governors, or to the Regional Board in the case of Hospital Management Committees. Applications are normally made in November and December when submitting the Revised Estimates, but further applications for virement will sometimes be considered, as the need appears, up to the end of the financial year.

Regional Boards have generally agreed to authorize virement when asked. They have taken the view that, as the main object of the Estimates is to prevent Committees exceeding their total allocations, they could be allowed to transfer anything they manage to save on one subhead to meet extra spending on another. Their general readiness to allow virement is restricted only in so far as the health departments have sometimes 'ear-marked' some comparatively small percentages of the total allocation to be spent on building maintenance. Where the Board controls Developments and Improvements, 'special' items or nurses' salaries, savings on these are not available for virement in the same Group but revert to regional reserves. Otherwise Groups appear to have no difficulty in obtaining sanction for virement, although they seldom have sufficient savings to ask for it except where they are compelled to defer non-recurring jobs and purchases to offset excesses on other subheads.

There has nevertheless been some disquiet lest Regional Boards are using their powers to authorize virement not only to cover excesses on items allowed for in the original Estimates but also to make additions to the year's spending plans—notably by undertaking additional 'Developments and Improvements'. The Select Committee on Estimates of 1956–57 criticized this practice on three grounds: that it vitiated the Minister's policy of distributing Development and Improvement money in such a way as to even out standards between Regions; that the developments may be financed out of savings which are not genuine—for example by cutting repairs and renewals below the level needed to maintain assets in working order; and, thirdly, that some once-and-for-all savings, such as the

postponement of domestic maintenance, had been used to start new developments such as re-opening a closed ward, which would entail continuing financial commitments.[1]. The Minister of Health later expressed agreement with the Select Committee and has summarized his department's doctrine on the uses of virement as follows:

> 'It is proper that money saved by measures of economy or increased efficiency should be available to finance in the same year additional developments and improvements; but developments and improvements involving additional expenditure in future years should not be financed in this way unless the measures producing the savings have themselves equivalent continuing effects in future years.'[2]

Despite the objections in principle to using virement to bring new items into the budget, it seems unlikely in the present state of the hospital service to lead to any major dislocation of priorities. The total amount allowed for Developments and Improvements is only about 1 per cent of hospital running costs, and in the present financial stringency Groups can seldom save anything on their original Estimates to meet additional developments. Far more often, they have to cut down on developments and improvements or domestic maintenance items in order to meet additional spending on recurrent items—notably drugs and dressings. If they should manage to do more development than originally budgeted, this is likely to be on schemes already examined and approved in their Forecast for the year and only discarded later because it did not appear possible to contain them within the allocation. Another argument in favour of a free use of virement in the hospital service is that, under the present system of fixed annual allocations, the prospect of being allowed to use savings for other purposes gives Management Committees their most powerful incentive to economy. Moreover, while allocations are calculated largely on the previous year's expenditure, Regions can hardly be expected to

[1] *Sixth Report from the Select Committee on Estimates, 1956-57*, H.C. 222, para. 23.
[2] *Fourth Special Report from the Select Committee on Estimates, 1957-58*, H.C. 129. p. 5.

prejudice their claims for future years by not transferring unexpected savings when they already have many desirable projects for which no money has yet been found.

Local Authorities

The majority of local authorities appear to allow some form of transfers to meet overspendings from savings on other items within the same main expenditure headings. Power to authorize such virement usually rests with the finance committee or sometimes, at least for small sums, with the treasurer. It is usually emphasized that it is not intended to enable committees to undertake unbudgeted projects whenever a fortuitous underspending may arise, but only to provide for unavoidable excesses or to allow committees to forgo some budgeted item in order to bring in another should they wish to change their priorities during the year. The treasurer and the finance committee examine applications and insist on supplementary estimates wherever the purpose or the amounts involved are such that they believe the council would wish to take the final decision.

Some councils definitely forbid virement and insist on supplementary estimates for any deviation from the approved budgets. This is done to guard against fortuitous savings being used to add new items to the spending plans on which the budget was founded in the way that has been criticized in the hospital service. Failure to recruit sufficient teachers or nurses, for example, is not held to justify spending more on equipment or redecorations for schools or clinics. Spending committees may plead savings on related items as justification for supplementary estimates, but the finance committee and the council claim that their decisions are not unduly influenced thereby.

The positive case for virement is that it introduces a welcome measure of flexibility into budgets which are commonly prepared in great detail. It provides a simpler and speedier procedure than supplementary estimates for authorizing modifications in the budget. It prevents the council from being so inundated with requests for small supplementary estimates that they cannot give adequate attention to the relatively few which do involve really substantial sums or questions of major prin-

ciple. It also gives the spending committees an incentive to economize, through the knowledge that if they can do a job for less than they originally estimated they may be allowed to use the saving for something else within the same service.

Nationalized Industries

Virement, like supplementary estimates, is appropriate only in those budgets which authorize a definite amount of expenditure. Even in such cases it is not always permitted. One area electricity board, for example, insists on supplementary estimates for excesses on any subhead in the Revenue Expenditure Budgets, regardless of whether there are compensating savings elsewhere. But the general tendency in trading undertakings is to allow considerable flexibility within the fixed total by approving the estimates under a relatively small number of broad functional subheads and permitting some virement between them. Thus at the same time as the National Coal Board have been restricting the facilities for supplementary budgets for non-operational expenditure, they have allowed more extensive, though not unlimited, opportunities for virement within the approved budget. This helps to raise financial efficiency by making spenders find economies to offset any unavoidable increases in costs. The Central Electricity Generating Board also allow some transfers between subheads in Revenue Budgets, although no major departure from the budget is permitted.

General Considerations

The need for virement depends on the detail in which the budget is approved and the extent to which the governing body would otherwise have to be asked for large numbers of supplementary estimates. Virement can be valuable (*a*) for relieving the governing body of considering minor modifications; (*b*) for simpler and speedier authorization of such modifications; and (*c*) in providing an incentive to economize, through the knowledge that savings achieved by genuine economies may be retained to finance additional projects that could not otherwise have been afforded. An essential safeguard is that those who authorize virement should see that it is not used to conceal from the

governing body anything which because of the purposes or the amounts involved they would have wished to be brought to their notice.

BUDGET REVISIONS

General revisions of all the estimates in a budget are sometimes used as a means of increasing or curtailing authorizations to spend, and sometimes as a basis for reviewing performances or revising policy without imposing or altering any restrictions on expenditure. In non-trading public authorities, up-to-date estimates for the current year usually have to be presented with the new estimates for the coming year. They show how far actual results are likely to differ from the budget, allowing not only for changes authorized by supplementary estimates or virement but also for any probable underspendings and any changes in the estimated revenue. This supplies more up-to-date information on which to base the next year's estimates, and a check on compliance with the budget for the current year.

In trading undertakings, however, budget revisions are especially important owing to the need to allow for the effects of changes in output and demand on income and operational expenditure. The revenue budget must be adjusted to allow for such changes if it is to remain a realistic plan, authorization or yardstick against which to judge actual results or a valid forecast for use in policy-making and keeping check on profitability. *Ad hoc* budget revisions are constantly being made for policy purposes to show the implications of any new developments or proposals as soon as they are known. But they are usually supplemented by regular, comprehensive revisions to provide a check on results to date and a basis for determining future policy.

The gas boards have to make a revised forecast of their annual surplus or deficit halfway through the year for submission to the Gas Council. Some boards make this the occasion for the thorough revision of their annual Revenue Budget. In one board the budget of each works and district is adjusted to allow for changes in wages, prices, direct operating expenditure and

output. Headquarters departments' budgets are revised for changes in overheads. The only factor not revised is the estimated physical standards of production from which operating expenditure is calculated. This board also make a somewhat less extensive monthly revision to show how the year's results are likely to differ from the original budget owing to changes in wages and prices and differences between results to date and the appropriate portion of the budget. The estimated demand for the remainder of the year is not reassessed so thoroughly as at the half-year, though allowance would be made for any major known changes such as new housing or industrial development. Hence the half-yearly budget revision has become primarily a check on the accuracy of the monthly revisions, which are the main instruments for reviewing output, profitability and the efficiency of operating units.

The area electricity boards and the Generating Board are required to revise their Trading Estimates every quarter. Each board are left to decide how extensive the revision shall be. Some area boards make one full-scale revision halfway through the year, when they re-estimate demand for the latter part of the year. At the first and third quarters, they only amend the original estimates to allow for differences in actual results so far and known changes in wages and prices for the rest of the year. This has been found to secure greater accuracy, as full-scale quarterly revisions created a temptation to make too much allowance for short-term fluctuations in demand. The Generating Board have also developed a system of regular budget revisions for the Revenue Budgets of their Regions and Divisions. In order to maintain as far as possible a flexible system of budgetary control, the original supplementary estimates procedure has now been largely replaced by the periodic submission of revised budgets which are approved by the Board on the recommendations of the headquarters Budgetary Control Panel.

In the National Coal Board, headquarters are constantly amending their overall Forecast of Financial Results to take account of changes in wages, prices, demand and any other external circumstances as they arise. They do not, however, call for regular budget revisions from the lower tiers of their

organization. Complete revisions have sometimes been asked for halfway through the year when interim results have proved seriously at variance with the original Forecasts but these are not intended to become a regular practice. The Board's present policy is to reduce the frequency of budget revisions and hold Divisions to account to achieve a stated result, despite changes in output, prices or wages, as an incentive to offset inflationary forces by greater efficiency in working.

British Overseas Airways Corporation have never had a regular system of budget revisions. They would revise their Revenue Budget during the year if the original estimates were seriously invalidated by some major change, such as a postponement of the delivery date for new aircraft. But deviations from the original Operational Plan do not normally have a sufficient effect on total expenditure to require regular budget revisions. With the monthly results the Board are given a brief summary each month showing the aggregate net earnings to date, plus the budgeted net earnings for the remaining months. There is no attempt, however, to project forward the effects of any changes in costs or services that have already occurred or are known.

In general, therefore, the frequency and thoroughness of budget revisions depend on how easy it is to revise the original estimates and how far the information disclosed can be put to practical use in running the business. In the gas and electricity supply industries, revision is simplified by the homegeneity of the product and the use of agreed standards of production. Hence these industries tend to make more use of budget revisions than the National Coal Board or the airway corporations, for whom revision is a more laborious process and less likely to produce substantial gains in accuracy. The tariff agreements of the air corporations could also leave them very little opportunity for making use of a revised budget as a basis for altering services or charges at short notice.

CONCLUSION

(1) The budget, once adopted, should be regarded as firm.

But it is humanly impossible to estimate precisely for every eventuality. Therefore some modification of the budget during its currency may be necessary if the underlying assumptions change. Trading budgets in particular ought to be flexible in this way.

(2) Such modifications on the budget should be reported to and, where appropriate, authorized by higher authority. This should be done by presenting supplementary estimates, applying for virement or submitting revised budgets for information or approval.

CHAPTER VII

THE REVENUE BUDGET: COMPARISON OF RESULTS WITH THE BUDGET

HAVING examined how budgets are prepared, adopted and if necessary modified during their currency, it now remains to look at the last phase of the budget cycle—how actual results are compared with the budget and how this can assist in controlling the execution of policy or providing a basis for its revision.

Two main questions have to be asked. First, how are the budget comparisons made—how frequent and extensive are they and what special statements and procedures are adopted? Secondly, what value are they for helping the administrator to adhere to the policies and standards reflected in the budget or in bringing to light deviations and enabling appropriate corrective measures to be taken. This chapter is concerned with the techniques and practical applications of budget comparisons in different kinds of public authority. It deals with what is done both during the currency of the budget and restrospectively when the actual results for the whole period are known.

THE CENTRAL GOVERNMENT

Day-to-Day Checks on Payments

A day-to-day check on payments is maintained on behalf of Parliament by the Comptroller and Auditor General. In his capacity as Comptroller, he has the duty of seeing that money is only made available for such payments as have been authorized by Parliament. For Supply Services the total payments in any year must not exceed the total spending approved by Parliament in the Estimates and authorized in the Consolidated

Fund Acts. The normal way of making payments is by issuing orders drawn on the Paymaster-General's Account at the Bank of England. This is replenished at frequent intervals from the Exchequer Account, into which government revenues are paid. Issues from the Exchequer require the consent of the Comptroller-General, which he will only give after verifying that they will not cause the total amount issued to date to exceed the Estimates, including any Supplementary Estimates, approved by Parliament for the year.

This control operates through the following procedure. A Royal Order under the Sign Manual authorizes the Treasury, with the concurrence of the Comptroller and Auditor General, to issue from the Exchequer the amounts authorized by Parliament in the Consolidated Fund Act. The Treasury at frequent intervals—usually each weekday afternoon—ask the Comptroller-General to grant 'Credits on the account of Her Majesty's Exchequer'. Having satisfied himself that the sum authorized by Parliament will not be exceeded, he writes to the Bank and grants a credit to the Treasury on the account of Her Majesty's Exchequer of the amount requested. The Treasury ask the Bank to transfer the funds from the Exchequer to the Supply Account of the Paymaster-General and specifies the Votes in respect of which issues are to be made. The Treasury order is afterwards sent to the Comptroller-General in support of the daily account of Exchequer issues. The Treasury do not, however, inform the Comptroller-General in advance of the purposes for which money is required. His function at this stage is to see that total payments do not exceed the total amounts voted, without checking proposed payments against the Estimates for each separate service.

The more detailed day-to-day control of expenditure in each department rests with the accounting officer, whose duties have been defined as follows:

> 'The Accounting Officer signs the Appropriation Account prepared annually for each Vote in accordance with the Exchequer and Audit Departments Act, 1866, and thereby holds himself responsible for its correctness. He is the person

whom Parliament and the Treasury regard as primarily responsible for the balance in the custody of the department. . . '.[1]

The accounting officer has a direct responsibility to Parliament to see that expenditure conforms to what Parliament has authorized. If there is any dereliction of his duty in this respect, the Public Accounts Committee may recommend that the expenditure be disallowed and surcharged to the accounting officer. Should the minister ask him to order a payment which he believes to be irregular or improper in a way involving his personal liability, the accounting officer should explain his objection and the grounds for it in writing. He should not make the payment unless the minister gives a written order overruling his objection. In this case, after making the payment, he should inform the Treasury of the circumstances and communicate the papers to the Comptroller and Auditor General. If this procedure is followed, he may expect the Public Accounts Committee to acquit him of any personal responsibility. In practice, however, such conflicts between the minister and the accounting officer are very rare indeed. If they do occur, the accounting officer would inform the Treasury and the Comptroller and Auditor General and the difficulty is usually resolved informally.

Accounting officers obviously cannot check the authority for every payment themselves, but they are expected to see that there is adequate machinery for detailed checking of proposed payments at every level in the department. As the Treasury minute states:

> 'it is incumbent on them, before making, or allowing payments, to satisfy themselves, by means of statements duly certified by the Officers entrusted with the detailed duties of the account, as to the correctness and propriety of the transaction'.[2]

The responsible officers must be told in advance what the Estimates will allow them to do, so that before approving any payment they can verify that it falls within these limits.

[1] *Aguide*, para. 93 [2] *Ib.*

Reporting Departures from the Budget

Checks on payments before authorization should bring to light any actual overspending or expenditure on items not provided for in the Estimates. But by then the work will already have been done or the order delivered. To be in time to stop unbudgeted expenditure, the control must start much further back when deciding to incur any commitments involving future payments. As a recent Financial Secretary to the Treasury has said:

> 'The Treasury and the finance divisions of the spending departments need to be constantly reporting any change, as soon as it comes in prospect, which would put up money costs, and asking in good time for the decisions of administration or policy by which the effect of the change, if it occurs, can be counteracted.'[1]

The same holds good for all in charge of any branch of work within a department. As the Estimates set definite ceilings on expenditure, any change in plans or requirements must be reported as soon as it becomes known, in order to leave as much time as possible to make counterbalancing adjustments in other items, to avoid overspending or, if this is impossible, to seek a Supplementary Estimate.

In the Ministry of Works, for example, all whose activities affect spending are instructed to notify their immediate superiors 'as soon as any possibility of a significant saving or excess may appear'. The superior officers, whose responsibilities cover a wider field, can then consider whether they are likely to be able to meet overspendings from underspendings on other items; whether some other work can be held back deliberately to make this possible; or whether it will be necessary to ask for virement or a Supplementary Estimate.

Regular Budget Comparison Statements

Comprehensive statements of payments to date compared with the Estimates are normally produced at regular intervals during the year. They provide a check that any likely variations have been reported and any appropriate action taken. They may

[1] Powell, J. Enoch, 'Treasury Control in an Age of Inflation', *The Banker*, Vol. cviii, No. 387, April 1958, pp. 216–17.

bring to light prospective overspendings or underspendings that have so far escaped notice. By reviewing the whole field of expenditure, they help to show where prospective overspendings can be offset by savings on other items within the same Vote or Subhead. They also give senior officers a convenient summary of how far their subordinates are adhering to their portions of the budget, and a starting point for inquiring into the reasons for major variations.

The Treasury asks all departments once a year for a revised forecast of the out-turn on each Vote. As these are submitted on January 1, they leave little time to adjust spending plans before the end of the financial year. Their main use is in deciding whether Supplementary Estimates will be needed and if so for what amount. Apart from this, however, some departments keep the Treasury informed of the progress of their expenditure at much more frequent intervals throughout the year, from expenditure statements devised by each department to suit their individual requirements.

Most departments produce monthly statements of payments to date, but these in themselves are not enough to indicate how expenditure is likely to compare with the Estimates by the end of the year. One method of overcoming this problem is to decide in advance what proportion of the Estimates ought to be spent in each period of the year, and then to compare the actual spending to date with the agreed proportion. The proportion spent on each Subhead in the corresponding months of previous years is often taken as a rough indication of how much ought to have been spent so far in the current year if all is going as planned. Thus the Ministry of Works, who expect marked seasonal fluctuations in much of their expenditure, produce periodic statements of expenditure against each Vote and Subhead showing the results not merely in the current year but for the corresponding months of the preceding year as well.

These reviews are concentrated in the middle months of the year when they are likely to be useful in regularizing the pace of expenditure. For the first few months, the monthly payments figures do not give much reliable indication of the general trend of payments over the year, while in the last month or two

little can be done to influence the final out-turn. Expenditure statements are therefore prepared at the end of the third, sixth, seventh, ninth and tenth months only. The relevant portions are circulated to all with responsibilities for expenditure within the department. The finance division make an assessment of the overall position, inquiring from the responsible officials to check on whether any change in costs or requirements is likely to affect their total spending for the year. Prospective over-spendings can be divided into two groups—those that are relatively uncontrollable, like rents, heating and light, and those where it is possible to restrain spending by deferring work or purchases. The finance division have to decide how much restraint is needed to counterbalance any uncontrollable over-spendings, and whether sufficient savings can be achieved to avoid a Supplementary Estimate. Those who authorize expenditure will then be instructed accordingly, either by general exhortations to defer all non-essential work or by specific embargoes on particular jobs or categories of work.

Some other departments do not work on direct comparisons of payments with the Estimates, but use the payments figures, together with information derived from other sources, to produce periodic forecasts of out-turn for the year, which they then compare with the Estimate. The Post Office prepares revised forecasts of out-turn three or four times a year—in April, September, November or December, and—on the engineering side only—in January. The April figures are used in reappraising commercial prospects for the year while there is still time to revise charges if necessary in order to avoid a deficit on the commercial accounts. The September figures give preliminary indications of where Supplementary Estimates or virement may be needed, while the later revisions are used to decide finally whether either of these must be sought.

Both the departments mentioned have also devised some rougher and simpler checks on their performance against the Estimates by reference to manpower statistics. The Ministry of Works' monthly returns of labour employed on building are taken as a guide to the probable payments falling due two or three months afterwards. In the Post Office, budgets for Head Post

Office Districts are drawn up in terms of manpower and overtime so that Head Postmasters can compare their results with the budget according to the numbers of staff and hours worked, which at this level are more readily compiled and understood than expenditure returns.

The Post Office also keeps a running check on its trading results against its commercial Forecast for the year. The object here is to see that prospective earnings are likely to remain sufficient to cover costs and make the agreed annual contribution of £5 million to the Exchequer. Revised Commercial Forecasts are prepared if there is any major change in circumstances, and in any case periodically during the year, to see whether any alteration in charges or services may be called for to avoid a deficit on the Commercial Accounts. The increased charges announced in July 1957, for example, resulted from the substantial deficit revealed in the revised Commercial Forecast of the previous April, due primarily to wage awards announced subsequent to the original Forecast. Steps were immediately taken to seek a corresponding increase in revenue. The increased charges came into effect in October 1957 and January 1958 and were levels calculated to restore equilibrium in the Commercial Accounts by the end of 1958–59.

The Post Office thus has to control expenditure against cash and income and expenditure budgets simultaneously. Cash Estimates and accounts are used to see how the results of individual Districts, Areas, Regions and departments compares with expectations. Their cash payments must then be aggregated by headquarters and converted to a commercial basis for comparison with the Commercial Forecast. The dual obligations of adhering to the Estimates and earning a surplus do not usually conflict in practice, although they might well do so if the level of activity were less stable. In this case, a trading undertaking could easily end up with its cash position right but a commercial deficit, or with satisfactory net earnings but overspendings or underspendings on the cash Estimates.

Retrospective Scrutiny: the Public Accounts Committee

Comparisons of actual results with the budget have long been

regarded as one of the keystones of parliamentary control over government expenditure. The present procedure for retrospective scrutiny of expenditure on Supply Services remains substantially as laid down in the Exchequer and Audit Departments Act, 1866. This provided for the audit of departmental accounts by the Comptroller and Auditor-General, whose reports and investigations provide the starting point for the annual review of government expenditure by the Public Accounts Committee of the House of Commons.

Departments have to prepare annual Appropriation Accounts setting out their actual expenditure and receipts appropriated-in-aid as compared with the approved Estimates, including any Supplementary Estimates, on each Vote and Subhead. They give fewer details of each Subhead than are shown in the Estimates, but set out the underspendings or overspendings on each Subhead and a brief explanation of the causes of any substantial variations. The civil departments' Appropriation Accounts are published in two volumes, for Classes I to V and VI to X respectively, and there is a separate volume for the revenue departments and for each of the defence departments.

The statutory date for the submission of Appropriation Accounts to the Comptroller and Auditor General is November 30 for civil and revenue departments and December 31 for defence departments. In practice the Treasury asks departments to submit them by September 30. This leaves six months after the end of the financial year for departments to draw up their Accounts and prepare their explanations of variations from the Estimates, inquiring into any whose justification has not already been established through the running checks during the year.

In the months from September to January, the Comptroller and Auditor General completes his examination of the final accounts and prepares his reports thereon. Written questions are put to departments on points arising from their Accounts, perhaps involving the production of further information. Following these inquiries the Comptroller and Auditor General draws up his report which under the Exchequer and Audit Departments Act, he is required to submit to the Treasury with his certificate of audit. The Treasury must then present

the audited Accounts and Report to Parliament. The Revenue Departments' Appropriation Accounts usually appear in mid-November; the Civil Appropriation Accounts, Classes I–V in mid-January and Classes VI–X towards the end of February; and the Defence Departments' Appropriation Accounts in mid-March.

The Public Accounts Committee usually meet once or twice before Christmas, when they consider the Revenue Departments' Appropriation Accounts. Their regular meetings to examine the rest of the Appropriation Accounts start in February and continue, usually twice a week, until about the middle of June. A further meeting is held in July to agree on the draft of their main report, which generally appears shortly before the summer recess.

Accounting officers are called upon to appear in person before the Committee for examination on the Votes for which they are responsible. They are often accompanied by other senior officials of their department, including the principal finance officer. The Comptroller and Auditor General and representatives of the Treasury are in attendance whenever evidence is being taken. Towards the end of the parliamentary session, the Committee report to the House. Their findings are then considered by the Treasury, who invite observations from the departments concerned and decide what action should be taken. They may issue instructions to departments to amend their practices and procedures, and these will be reported in minutes to the Public Accounts Committee in the next session of Parliament. If the Treasury disagree with any recommendation of the Committee, a reasoned explanation will be set out in the minutes. In practice such differences are usually resolved by agreement in due course. The Treasury minutes are considered by the new Committee and published with their own comments in a special report to the House. Thus the annual audit cycle ends about two years after the end of the year to which the Accounts relate.

This whole audit procedure has been described by Mr Herbert Morrison as 'a real factor in putting the fear of Parliament into Whitehall'.[1] It has had far-reaching effects on procedures

[1] *Third Report from the Select Committee on Procedure*, H.C. 1945–46/189-1, q. 3227.

and attitudes to financial control within the departments. Much time and immense care is devoted to preparing answers to questions likely to be raised by the Comptroller and Auditor General and briefing the accounting officer for his examination by the Public Accounts Committee. The deterrent effects are seen in the constant and lively concern to do nothing that may call down the rebuke of the Committee. Their reports and the Treasury Minutes thereon have long been regarded as 'in some sort, a body of "case law" relating to many questions of public accounting'.[1]

The prestige of the Public Accounts Committee springs in part from its own composition. With fifteen members, it is small enough for prolonged deliberations on detailed questions unsuitable for debate in the full House. The chairman is always a senior opposition member, if possible a former Financial Secretary to the Treasury. The Financial Secretary of the day is also a member. But the Committee's effectiveness is in very large measure due to the expert, independent assistance they receive from the Comptroller and Auditor General. His reports serve as the starting point for their inquiries, and guide them through all the manifold details of departmental accounts to concentrate on a manageable number of topics which appear most to call for criticism or elucidation. He is their trusted adviser who attends all meetings where evidence is taken and other meetings as required, briefs the chairman before meetings, suggests lines of inquiry, and gives evidence himself and puts his own views to the Committee if a department's evidence appears unsatisfactory or incomplete.

The nature of the Committee's power is determined by the character of the detailed audit upon which their investigations are based. This was described by the late Comptroller and Auditor General, Sir Frank Tribe, as a three-fold process. The first was 'seeing that the accounts are correct' from the ordinary accountant's point of view. Most errors and irregularities of this kind can be cleared up by the staff of the Exchequer and Audit Department who are stationed in the departments to maintain a running audit of their transactions, so that only the

[1] *Aguide*, para. 71.

very rare major irregularities reach the attention of Parliament.

The next aspect of the audit is to see that transactions have proper parliamentary authority and conform to the established rules of parliamentary and Treasury control of expenditure. This, Sir Frank Tribe explained, 'involves questions such as . . . whether the money has been applied contrary to the intentions of Parliament in voting it, serious discrepancies between estimates and the out-turn of the accounts, whether the Treasury exercised their power of virement in a way which I wonder whether Parliament will altogether approve, the question of lack of statutory power for expenditure on continuing services, the question of whether the expenditure falls within the ambit of the vote, things like the undue accumulation of reserves by bodies in receipt of parliamentary grants, and items of that nature'.[1]

Here again few major irregularities occur. It has been very rare, though not quite unknown, for an accounting officer to be surcharged for allowing improper payments. Departments very largely succeed in complying with the spending plans authorized by Parliament. If they do incur excesses, they must apply to Parliament for an Excess Vote. The Public Accounts Committee considers the circumstances leading to any excesses, which will be disclosed in the Comptroller and Auditor General's report. If the Committee are satisfied, they authorize the presentation of an Excess Vote, which is presented to Parliament immediately and passed through the same procedure as a Supplementary Estimate. There were only twenty-three Excess Votes altogether in the ten years between 1947 and 1957. The highest number sought in any one year was nine, and in two years there were none at all. More than half were for token sums only, as there were either compensating increases in revenues which could be voted as an additional Appropriation-in-Aid or, among the defence departments, savings on another Vote accounted for by the same department which could be transferred. Of the twenty-three Excess Votes, thirteen were for token sums of £10. The remaining ten amounted to barely £3 million, and most of this was for one large excess on the Army Vote. The

[1] *Third Report from the P.A.C., 1951–52*, H.C. 253-I, q. 1773.

eighteen Excess Votes for civil departments totalled only £33,572 10*s.* 2*d.* including eleven Votes of £10.

Underspendings tend to be regarded as somewhat less reprehensible than overspendings, although the Public Accounts Committee recently recommended a stricter attitude in 'regarding surpluses resulting from overestimating as no less serious than excesses'.[1] Most large surpluses arise in the departments which have peculiar practical difficulties in making an accurate forecast because their requirements can be markedly affected by changes in commodity prices or the availability of resources.[2] In the years 1949–56 the total net expenditure of all departments was only some 4 per cent less than the total approved by Parliament. On the Votes for civil and revenue departments in the same period, the aggregate surpluses, expressed as a percentage of the parliamentary grants, ranged from 10·9 per cent in 1950–51 to as little as 1·2 per cent in 1956–57.[3]

The third aspect of the audit, as described by Sir Frank Tribe,

> 'consists of such things as looking at waste and extravagance, lack of control over expenditure, the adequacy of the internal audit or check and failure to collect due receipts, losses from failure to safeguard cash, and that kind of thing'.[4]

Inquiries into economies and efficiency, unlike the other two branches of the audit, are not among the statutory responsibilities of the Comptroller and Auditor General, and in this respect there is no specific sanction such as the surcharge against accounting officers who allow improper payments. Nevertheless, the most important part of the work of the Public Accounts Committee today consists of probing into examples of apparent waste and extravagance. The Comptroller and Auditor General considers it one of his essential functions to draw their attention to any such cases as are discovered in the course of the

[1] *Second Report from the P.A.C., 1952-53*, H.C. 106, para. 9.

[2] *Special Report from the P.A.C., 1953-54*, H.C. 67, p. vi.

[3] The figures for each year were: 1949-50, 4·8 per cent; 1950-51, 10·9 per cent; 1951-52, 3·9 per cent; 1952-53, 3·4 per cent; 1953-54, 2·7 per cent; 1954-55, 5·1 per cent; 1955-56, 3·8 per cent; 1956-57, 1·2 per cent. (Source: *Civil Appropriation Accounts*, Reports of the Comptroller and Auditor-General.)

[4] *Loc. cit.*

audit and for which the department has been unable to supply satisfactory explanations.

There has been no attempt to establish a distinct process of parliamentary 'efficiency audit', such as exists in Sweden, quite separate from the audit of government accounts. The Comptroller and Auditor General has no special staff to inquire into questions of this nature, but relies on what comes to the notice of his auditors in the discharge of their other functions. Compared with a specialized efficiency audit, their approach is less systematic and necessarily disregards questions affecting efficiency which are not directly reflected in the accounting records but would be more readily thrown up by Organization and Methods or work study techniques. But this empirical development of the auditors' function reflects an underlying assumption of fundamental significance to the whole budgetary process in British government—that Parliament authorizes expenditure on the understanding that it will be spent with all possible efficiency and economy in administration, and that departments are expected to show not merely legalistic compliance with the amounts and purposes specified in the Estimates but that within those limits they have spent no more than is necessary for the purpose and have obtained the best possible value for the money expended. This contrast between the narrowly legalistic implications of the Appropriation Act and the current concept of parliamentary control were clearly stated by Lord Bridges, when Permanent Secretary to the Treasury:

> 'In well-established Government Departments familiarity with the necessity for and the meaning of due authority for payments is widespread, so that the likelihood of payments being irregularly or improperly made is not nowadays very high. More important is the responsibility of the Accounting Officer for securing "economy", in the widest sense, in the administration of his Department. Questions of "Economy" in this sense are more a matter of judgment than questions of regularity. . . . Nevertheless he must be prepared to defend the operations of his Department on any subject which may arise in the course of the examination of the accounts.

Although questions of policy, as being ultimately the responsibility of the Government, fall outside the scope of the Public Accounts Committee, the methods by which Government policy have been carried out are very much the Committee's concern. Its examination is not, therefore, confined to establishing the sufficiency of the authority for payments made, but properly includes questions of management, with which economy is inseparably concerned; and in point of fact the greater part of an Accounting Officer's examination is nowadays normally directed to questions of "economy" in the widest sense.'[1]

The great difficulty in inquiring into waste and extravagance in government expenditure is to find suitable criteria against which these can be assessed. Commonsense and empirical investigation may reveal obvious maladministration, but in many fields the accounts are of little direct help in pointing out extravagance. Comparisons of performance with the budget are at best a very rough yardstick, since the Estimates are not intended primarily to express the proper cost of a given amount of work but rather to fix a definite level of spending to which departments are expected to try to adhere even though the volume or character of the work or the cost of doing it may prove to be different from what was assumed in the budget.

In their search for other standards of efficiency, the Public Accounts Committee have called upon departments to supplement their Appropriation Accounts with other data. Revenue-earning services have to furnish trading accounts or statements of costs and proceeds on as nearly as possible a commercial basis. Unit costing is encouraged whenever practicable. In this way, the costs are compared with those of similar units or jobs, or with those of the same service in previous years, as in recent reports by the Comptroller and Auditor General on school milk supplies, medical prescriptions and married quarters for the armed forces. Departments have sometimes taken the initiative in developing financial yardsticks of efficiency. The Ministry of Education in 1957 set up a Cost Investigation Unit to make

[1] *Fourth Report from the P.A.C., 1950-51*, H.C. 241, Appendix 2, para. 3.

detailed investigations into comparative unit costs at different establishments, beginning with a survey of teaching training colleges where some material savings have already been achieved through inquiring into high costs and studying why relatively lower costs had been achieved elsewhere.

To summarize, therefore, comparisons of performance with the budget in the central government proceed on two separate planes. First comes the clearly measurable test of conformity with the amounts and purposes of expenditure approved by Parliament. Secondly, the empirical, less systematic check on efficiency against more subjective standards which are seldom precisely defined in advance let alone built into the budget itself. In both respects the primary responsibility for control during the year rests with the accounting officer of each department. Retrospectively, however, there is a searching independent examination by a committee of the House of Commons and an independent officer of the House, whose standing is sufficiently high to supply a powerful deterrent to unauthorized expenditure and inefficiency in financial administration.

THE HOSPITAL SERVICE

Running Checks on Expenditure

Hospital authorities' annual Estimates are plans to spend a fixed Allocation, variable only when there are changes in wages or prices during the year. Their running checks on expenditure have therefore been designed primarily to see that the total Allocation is not exceeded.

This control is founded on monthly statements of expenditure to date against the appropriate proportion of the Estimates. Hospital Management Committees submit their statements to the Regional Hospital Boards, who prepare Regional summaries for the Ministry. Regional Boards and Boards of Governors make their own expenditure returns to the Ministry. The form of the statements has been laid down by the Ministry. The Subheads are the same as prescribed for the Estimates, and against each is shown expenditure during the month, during the year so far, the proportionate part of the

approved estimate, and the amount by which this has been overspent or underspent.

Methods of preparing these statements vary considerably. Those Regional Boards who approve Management Committees' Estimates under more detailed subheads than the departments prescribe, normally require the same degree of detail in the expenditure returns. Other Regional Boards ask Groups to supplement their basic monthly statements with supplementary returns—weekly, monthly or quarterly—of expenditure on certain subheads, notably 'Drugs and Dressings' and 'Provisions'. Even where not required by the Regional Boards, a growing amount of additional information is being made available to Management Committees, including accounts of progress against programmes of work, detailed analyses of certain subheads, operating costs for transport and laundries, unit costs for 'Provisions' and 'Drugs and Dressings', overtime statements and job costings of work done by direct labour. Groups are usually expected to make their statements on an income and expenditure basis to correspond with the Estimates, but some Regional Boards allow them to do so on a cash basis if they wish. This is defended on the grounds that it expedites their preparation and eliminates the risk of errors in valuing stocks and carry-overs, but it means that allowance must be made when interpreting the statements for any items of accrued expenditure not yet paid for. In deciding the proportionate part of the Estimate with which to compare expenditure, some Groups are expected to allow for seasonal variations in such items as heating, lighting and outdoor maintenance. Elsewhere all proportions are calculated on the assumption that an equal amount is spent each month, so that allowance for seasonal fluctuations, as revealed by past experience, must be taken into account in deciding whether the final out-turn is likely to conform to the Estimates.

For the Ministry and Regional Hospital Boards the monthly statements provide a convenient check on how far authorities are succeeding in keeping within their Estimates. They examine the statements submitted to them and inquire into the reasons for any substantial overspending of the Estimates. The statements also help Regional Boards to discover where savings in

one Group are likely to be available to offset additional expenditure in another. Their main purpose, however, is to assist the responsible officers within the Groups to keep within their annual allocations. Many of the larger Groups have delegated responsibility for controlling expenditure on certain subheads to individual hospitals or departments, and in most cases where there is no delegation hospital officers are informed periodically of the budgetary position.

The monthly returns enable Group and hospital officers to watch the progress of expenditure from month to month, and to take immediate action if necessary to offset any variations from the Estimates. In considering the scope for corrective action, a Group can divide their expenditure into four main categories. The first and largest consists of substantially fixed charges; this includes most of the wage and salary bill, since the Ministry provide additional allocations for wage awards and most Regional Boards do the same for additions to nursing staff within the approved establishments. Secondly, there are such items as provisions, upon which it should be possible to estimate fairly closely but which can easily be overspent unless carefully watched during the year. A third group of expenses, notably drugs and dressings, can neither be estimated precisely in advance nor deliberately adjusted during the year, since they depend on the cases coming in and the medical experts' views as to the best treatment. Fuel comes somewhere between the second and third categories: the greater part can be budgeted like provisions but there is always an element of uncertainty owing to weather conditions. This leaves a comparatively small number of balancing items where adjustments can be made if necessary to keep within the budget. Chief amongst these are building maintenance and purchases of furniture, crockery, bedding and other domestic equipment.

The main strategy is to keep special checks on provisions, to watch for any tendency to overspend on drugs and the other less easily controllable items, and to control the balancing items in detail so as to keep total expenditure in line with the budget. This means insisting on individual approvals for each non-recurring job or purchase, and not approving everything allowed

for in the budget at the beginning of the year. This leaves a reserve of uncommitted funds which can be diverted to other subheads to offset unavoidable overspendings. There must also be a reserve of unapproved projects that can be put in hand at short notice should underspending appear likely towards the end of the year. The delicate balancing process is complicated by unpredictable fluctuations in expenditure in the last weeks of the year due to the effects of bad weather on fuel consumption and outdoor maintenance work. All this demands close co-operation between the finance department and the purchasers and engineers who directly control the work or ordering of the balancing items.

The techniques adopted to keep within the annual Estimates tend to result in some dislocation of long-term priorities. The amount actually spent on balancing items of building maintenance or equipment may be more or less than agreed to be appropriate when the Estimates were prepared. Repeated virement of funds away from building maintenance is particularly serious as it must lead in the long run to greater dilapidation and increased expenditure. The Ministry have in some years tried to guard against this by insisting that a certain proportion of the allocation be devoted to building maintenance, but this still gives many Groups considerable latitude for transferring sums originally budgeted for building maintenance over and above the earmarked minimum. Moreover, non-recurrent items may not be carried out in order of priority, because the smaller and more quickly organized schemes are liable to be brought forward to use up the allocation towards the end of the year, while large projects for which the need may be greater have to be deferred. Where fairly complete lists of works are maintained, however, it is usually the most urgent works already budgeted for the following year that are brought forward to prevent underspending.

Retrospective Scrutiny of Results

Retrospective comparisons of the annual accounts with the Estimates come too late to prevent overspending or underspending. Their value is as a deterrent impressing on spenders

the importance of keeping within their budgets and maintaining effective running checks on expenditure during the year, and as an influence towards sounder budgeting in future years.

Retrospective comparisons can be based either on the last of the monthly expenditure statements, which covers the full twelve months, or on the final accounts for the year, which are not available until some months later. Any substantial overspendings either in total or on particular subheads are usually picked out for special investigation. Members or officers of the Regional Board may make on-the-spot investigations in the Group concerned or Group representatives may be summoned before the finance committee of the Board. The result may be a formal warning or reprimand to the Management Committee, or advice and offers of help from Board officers for improving the internal financial controls in the Group. Follow-up action of this kind was extremely important in the early years of the service, but the need for it has greatly diminished as Groups have become more practised in the art of managing on a fixed annual income and more aware of the degree of restraint which this entails.

These comparisons of results with the Estimates are conducted quite separately from either the technical audit of accounts by special staffs of auditors appointed by and reporting to the Minister, or the retrospective checks on economy and efficiency or based on hospital unit costs. The Ministry auditors do not audit the hospital cost accounts. They are expected, however, to look into such questions as whether money was spent in accordance with the budget and without waste or extravagance, and to report to the Minister any evidence to the contrary that comes to their notice. But broader aspects of financial efficiency are regarded as matters to be dealt with primarily through the ordinary administrative channels of health departments, Regional Hospital Boards and Management Committees.

As the annual Estimates are not normally varied to allow for variations in the demands on the service, other yardsticks of efficiency are needed to enable total expenditure to be considered in relation to the work actually done, as distinct from

what was expected when the Estimates were approved. The unit costing system has been devised to fill this gap and now provides 'the chief criteria of financial efficiency'[1] in the hospital service.

Annual cost statements for each hospital and health department are prepared in the Groups and forwarded through the Regional Boards to the health departments, who publish an annual volume of 'Hospital Costing Returns' showing separate figures for each hospital in the country, broadly classified according to type and size. Until 1956–57 all costs were reckoned 'per occupied bed' over the hospital as a whole for broad expense groupings similar to those used in the Estimates. Hospitals of like type were grouped together in the returns. These could not, however, take account of detailed differences in the services provided at each hospital, and did not allocate the costs to the points within the hospital where expenditure could really be controlled. A new system of 'departmental' costing, to produce separate figures for each main branch of hospital work, was introduced in 1957–58.

The main object of the Costing Returns is to stimulate comparisons between costs at different hospitals of similar size and type, with a view to investigating major variations and seeing whether there is any waste, extravagance or undue parsimony that ought to be corrected. There has been no attempt to lay down absolute standards of what the unit costs ought to be. The actual costs can only be compared with those at other hospitals of a similar type or with a Regional or national average, and the results of such comparisons have to be interpreted with great caution owing to the wide variations in local conditions and in the range and quality of services provided. But despite their limitations, Costing Returns appear likely to remain the best general guide to relative standards in the hospital service. They are especially valued by Regional Hospital Boards for pointing out where any Group's costs are markedly above the average. Their appearance is sometimes the occasion for a detailed annual review of Group results by the Regional Board,

[1] *Sixth Report from the Select Committee on Estimates, 1956-57,* H.C. 222, para. 20.

the results of which are borne in mind when settling Groups' allocations for future years. Some similar checks can be made by Groups as between their various hospitals and departments and by the health departments over the country as a whole. Thus although the Estimates themselves are not calculated from standard costs, the unit costing system, operating parallel with the budgetary control, enables hospital authorities to see not only that money was spent as authorized in the budget but that within those limits reasonable standards of service and efficiency were attained.

LOCAL AUTHORITIES

Day-to-Day Checks

Local authorities, like government departments, are expected to keep their expenditure within a fixed budget approved by an elected body. In local government, however, the elected body authorize expenditure and not payments. Hence the council have no equivalent to Parliament's arrangements for Exchequer issues to be authorized after scrutiny on their behalf by the Comptroller and Auditor General. Once the Estimates have been approved, expenditure can normally be incurred without further reference to the council, unless they fall within a category of large or otherwise important items—for example, liabilities exceeding £100—which the council may have ruled should come before them again before any liability is incurred. As has been seen, councils vary greatly in how strictly they expect committees to adhere to their Estimates and when they are expected to seek prior approval for variations. Many attach great importance to comparing results with the budget as a convenient check on whether departments are carrying out their policy faithfully and without waste or inefficiency. Others regard the Estimates as little more than a prerequisite for fixing the rates, and once this is done show little interest in their value as a yardstick for assessing the actual results.

Many local authorities appear to make little use of formal budget comparison statements and procedures. Where the scale of operations is small and the Rate Estimates drawn up in great

detail, spenders find little difficulty in recalling just what the budget will allow them to do. They know what staff, how much overtime, which purchases or how many miles motoring were provided for in the Estimates, and need no special expenditure returns to tell them whether they are keeping to their approved spending plans. Most of the day-to-day checking will be done by the spending committee and officers and the spending departments, who must ask before taking any decision involving expenditure whether it is covered by the budget. If not, they must decide whether to defer it, to find counterbalancing savings on other budgeted items or to apply for a supplementary estimate. The finance committee and treasurer's department must pose the same questions on any proposals put forward for council approval, but these are usually much fewer in number than those decided at officer or spending committee level.

Compliance with the budget depends on when expenditure is incurred when goods are taken from stock or when work done under contract is actually performed, as distinct from when the payment is actually made. On many items, however, carry-overs are insignificant in relation to total expenditure. Payments can be watched as a guide to whether results are conforming to the Estimates. The treasurer's staff usually examine the invoices passed to them for payment and ask the spending departments to explain anything which they do not recall having been provided for in the budget. By then it is too late to avoid making the payment, but there might still be time to make offsetting savings or seek supplementary estimates before the end of the financial year.

Records of Commitments

When placing orders, starting work or engaging employees, the responsible officers and committees need to make sure that the resultant expenditure will not involve them in expenditure in excess of the Estimates for the year. They cannot tell this simply by looking at actual expenditure to date but must also consider any other commitments already entered into that will have to be honoured before the end of the year. This means taking note of the value of commitments as they are entered

into, deciding how much of these are likely to fall due during the year, and watching the progress of this total compared with the budget. This is particularly important where the Estimates provide a lump sum which will be spent on a large number of separate purchases, as for school books or fuel supplies. Checks on commitments are often left to the spending departments, who are expected to keep sufficient quantitative or financial records to stop themselves overspending. There is sometimes a running check at a higher level, as when an education department examines head teachers' requisitions for books and equipment.

Most local authorities in Britain only keep checks on commitments in respect of selected items where there would otherwise be a particular risk of overspending. A few, however, record commitments on all headings of revenue expenditure as a regular part of the book-keeping system. This practice, known as 'commitment accounting' is much more widespread in the United States where the main accounts are often kept on a commitments basis. In this country, while the main accounts must always remain on an income and expenditure basis, records of commitments are increasingly produced as supplementary memoranda for assistance in budgetary control. One borough treasurer has for several years supplied all departments with weekly 'costing statements' showing all expenditure and commitments against each subhead in the Estimates. To record commitments, spenders are required to supply the treasurer with priced copies of all orders placed, and these are included in his weekly cost tabulations. When goods are delivered or work done and the invoice passed for payment, the actual amount shown on the invoice is added to the tabulation in place of the estimated commitment previously included. The weekly statements thus tell the spenders not merely what has been spent so far but how much of their Estimate is committed for expenditure resulting from obligations already entered into.[1] For purposes of budgetary control, however, what matters is not the total commitments but the commitments under which

[1] Goodhead, F. B., 'Commitment Accounting', *Telescope*, Vol. 8, No. 2, July 1956, pp. 70–72.

expenditure will be incurred during the year. The time lag between commitments and expenditure must be correctly estimated and commitments likely to be carried forward to future years deducted from the commitment records in order to clarify how much of the current budget remains uncommitted.

Periodic Expenditure Statements

The spread of mechanized accounting systems has resulted in an increasing tendency for the treasurer's department to prepare periodic expenditure statements centrally for spending committees and departments. Some of these are simply summaries of expenditure to date, taken from the ordinary accounting records. Others are amplified to show how this expenditure compares with the budget. One large city prepares monthly comparative statements for all spending committees, showing against each subhead in the Estimates:

Expenditure to date.
Annual Estimate.
Unexpected Balance.
Percentage of Estimate unexpended.

The departments also receive monthly abstracts showing in more detail their expenditure for the month and for the year so far. These can be used to find out more exactly why the total expenditure may be out of line with the budget.

One advantage of these separate expenditure analyses and budget comparisons is that the former can be produced more rapidly, thus reducing the time lag before departments receive information upon which they can begin to check adverse trends or ascertain whether previous attempts to apply restraint have been successful. In the authority mentioned, all departments receive their expenditure analyses two to three weeks after the end of the month while the budget comparisons are not ready for about four weeks. Some of the largest departments are also given special returns of wages and salaries in advance of the full expenditure analyses. As wages and salaries form a substantial proportion of total expenditure, these separate returns have been found a reliable indication of general trends

and, by coming earlier, assist in producing rapid corrective action where needed.

The frequency of budget comparison statements varies greatly from council to council and even within a single authority. Comprehensive statements, covering all services, are now fairly common. But these may be supplemented by more frequent returns, often every week, for particular items which need specially close watching to guard against inadvertent overspending. Highway maintenance, fuel supplies or building maintenance, are often selected for special attention. Where expenditure takes the form of irregular purchases, the main check must be by comparing proposed purchases with the budget provision and the amount expended or committed to date. Where there is a continuing flow of expenditure, as for payment of wages, regular statements of outgoings for each week or month are a more reliable guide to the final out-turn.

The control arrangements must also be designed according to the spenders' capacity or inclination to make use of the data supplied. Some wish to have detailed expenditure analyses as a basis for their own internal controls. Others may need simpler statements to direct their attention to the main divergencies from the Estimates, and more active intervention by the treasurer's department to point out variations and show where corrective action appears to be required. The precise arrangements are usually the result of experiment and collaboration between the treasurer and spending departments to find how he can best supply the data they need without overloading them with unwanted information that may be expensive to produce. A regular annual review of all expenditure statements supplied to departments has often proved valuable for discovering which are no longer used, whether changes in the form or frequency would enable them to be better understood and acted upon, or whether they should be discontinued altogether. It also gives an opportunity to explain the significance of accounting statements to those who have to use them, and checks the temptation to perpetuate returns when the need for them may no longer exist.

The officers in the spending departments need to know how they stand frequently and in detail, in order to correct any ten-

dency to overspend. Committees are primarily interested in checking that this detailed control is being properly carried out by their officers. For this they require briefer statements to highlight any major departures from the budget. Many committees do not ask for expenditure statements as a regular procedure but trust to the treasurer or the spending department to draw their attention to anything seriously out of line with the Estimates. Where they do receive regular reports, they are commonly in less detail than those used by the departments. Thus in one county borough, spending committees receive an expenditure return once a year only, giving the first six months' expenditure in total against each main subhead of the Estimates and in detail for each item in any subhead where the appropriate proportion of the Estimate has been overspent. This review of the position at mid-year comes late enough for the general trend of expenditure to be emerging, but leaves time for action to restrain expenditure or obtain supplementary estimates before the year ends. Details used to be given in respect of all items, but they are now given only for overspendings as this helps the committee to concentrate on the items where action appears necessary. Their main value has been in helping committees to decide when to ask for supplementary estimates, and to supply supporting evidence for the finance committee when these are sought.

A persistent difficulty in interpreting budget comparison statements lies in deciding what proportion of the Estimates ought to be spent in each period. Unless this is done on some predetermined, rational basis it is easy to explain away apparent overspendings at the half-year by saying that more than half the estimated work has been done, while dangers of overspending may be overlooked when the greater part of the work normally falls in the later part of the year. If 50 per cent of the year's Estimate for fuel were spent in the first six months, this could portend an overspending, if most of the expenditure for fuel were due to fall in the succeeding winter months. To draw meaningful comparisons with the budget, the Estimates must either be phased seasonally to correspond with the expected incidence of expenditure, or else those using the statements

must examine all items—whether underspent or overspent—to see whether the proportion of the Estimate spent corresponds to the proportion of budgeted work done. Large authorities usually try to phase their Estimates in accordance with seasonal fluctuations in expenditure. Small councils may find it more convenient to dispense with these refinements and to explain the relative progress of work and expenditure in a covering report. One council, for instance, have a half-yearly statement showing the actual expenditure and the balance of the Estimate on each subhead, accompanied by a report from the treasurer explaining where and why the final result seems likely to differ from the Estimates.

Not all councils make regular reviews of expenditure against their Estimates, at either officer or committee level. In small authorities the unconscious budgetary control already referred to may make formal comparisons unnecessary. One rural district recently abandoned the mid-year budget comparison statements on the ground that they never revealed any variation whose cause was not already well known. Sometimes, however, it is the difficulty of making budget comparisons and not their superfluity which stops their being produced. County councils, for example, may find they have too many widely dispersed ordering points to assemble running statements of total expenditure in time for them to take action on prospective variations. One county council in this position have therefore concentrated on producing weekly or monthly running statements for a relatively small range of services—highways, school meals, and so forth—where there are particular risks of overspending. Their only comprehensive check on every service is when Revised Estimates are drawn up each autumn to provide the basis for the next year's Estimates. This gives an opportunity to compare the expected results with the Estimates and see where supplementary estimates may be needed. But it is usually too late to do much to restrain any tendency to overspending.

To summarize, local authorities use periodic expenditure statements for either of two purposes: (i) to assist those responsible for spending to keep within their Estimates; and (ii) to enable committees or the council to satisfy themselves

that this is being done. The responsible officers require full statements at frequent intervals and with the minimum delay. The council or committees want less frequent and briefer reports in a form which directs their attention to deviations from the Estimates. A particular problem in local authorities, who compared with other public bodies spend smaller amounts spread over a wide range of services, is to devise forms of budget comparison statements which can serve as reliable guides to action or checks on performances without costing much more to produce than they are ever likely to save by detecting or deterring overspendings.

Retrospective Review of Accounts

Retrospective comparisons of results with the budget receive far less attention in local authorities than in the central government. There are no local equivalents of the audit of government accounts by the Comptroller and Auditor General or their examination by the Public Accounts Committee. Local authority accounts in England and Wales are audited by district auditors appointed by the Minister of Housing and Local Government or, in the case of some borough accounts, by elected or professional auditors selected by the council. In Scotland the audit is by professional auditors appointed by the Secretary of State. The district auditor concerns himself not merely with the technical accuracy of the accounts but also with the legality and propriety of expenditure, in the broadest sense in which it is understood by the Comptroller and Auditor General. The district auditor's powers of disallowance and surcharge are, indeed, more real than those of the Comptroller and Auditor General in the sense that they are not infrequently used. As the budget is a plan imposed by the council themselves and not by the law of the land the district auditor does not regularly compare the outturn with each heading of the Estimates, although he certainly interests himself in whether the overall balance is markedly higher or lower than budgeted.

Local authorities are required by law to publish an annual abstract of their accounts. These are used for a variety of purposes. In particular they serve as an instrument of financial

accountability to the government and the ratepayers for the use of public moneys, and as a means of comparing costs with other local authorities as a starting point for investigating the possibilities of improved efficiency. For purposes of budgetary control, however, it appears that many authorities make little or no use of their final accounts. The treasurer usually makes a routine comparison with the budget, but this is often regarded more as a check on the accuracy of the accounts than a part of the procedure for ensuring compliance with the budget.

In some authorities, however, it is recognized that the full potentialities of budgetary control will not be realized unless those who authorize the budget also take steps to make sure that it is adhered to. Although this may be done in part by running statements during the year, only a retrospective check on the final accounts will reveal whether there were any irregularities through delays in bringing items into account or through expenses incurred in the last few weeks of the year. A regular annual comparison of accounts with the budget, at committee or council level, is therefore needed to complete the budget cycle. Comprehensive comparison statements may be presented to the spending committees, leaving them to report to the finance committee or the council on the reasons for any major variations. A regular retrospective review might thus be an important deterrent to overspending, bad estimating or failure to report prospective variations as soon as they appear likely.

Such a review might also lead on to broader inquiries into questions of economy and efficiency in the use of public money. A research team of the Institute of Municipal Treasurers and Accountants has recommended that councils set up a committee analagous to the Public Accounts Committee to conduct 'a continuous process of examination at committee level of the expenditure and income of all committees'.[1] Like its parliamentary prototype, such a committee would choose a selection of accounts for scrutiny each year and interrogate chief officers on the work of their departments. In this way, they could look into questions of apparent waste and extravagance as well as the more legalistic aspects of compliance with the Estimates.

[1] *The Revenue Budget*, pp. 57-58.

The authors believed that a committee could do this without having an independent expert like the Comptroller and Auditor General to make the preliminary inquiries, since council activities are on a sufficiently small scale for a committee to select topics and search out information on their own initiative, calling on the Treasurer and chief officers to supply factual information as required.

Such inquiries could not cover such a wide field as those of the Comptroller and Auditor General. The latter deals with many questions such as contracts and prices paid which in a local authority would have been decided by the council themselves and would not therefore be open to review by a committee. The greater amount of detail in local authorities' Estimates also has important effects in this connection. The more they specify exactly what the money shall be spent on, the less scope there is afterwards to ask whether the money was spent wisely and well. This would be going back on decisions taken by the council in approving the Estimates, and not reviewing the actions of spenders on matters left within their discretion. On the other hand, when committees and officers have more latitude to regulate expenditure within broad subheads, there is more need to see that they have not merely kept within the subheads but have made the best use of the money allowed them.

Trading Undertakings

The preceding sections were concerned primarily with budgetary control of expenditure on Rate Fund services. Local authority trading undertakings in England and Wales frequently have no regular annual budgets. Where a budget exists, however, comparisons of results with the budget are made for internal use by the department. Usually there is no question of requiring council approval for variations, although committee authorization may be insisted upon for variations in expenditure on fixed charges. But the main point of budget comparisons in a trading undertaking would be to provide a yardstick by which to assess the significance of actual results and decide what action may be called for. This aspect of budgetary control is examined in the following section as it applies to nationalized industries. The

same principles would generally be applicable to local authority trading undertakings, although with their much smaller size less elaborate and more informal procedures might be a more appropriate means to those ends.

THE NATIONALIZED INDUSTRIES

Running Checks on performance

In non-trading authorities budget comparisons are almost entirely concentrated on expenditure. Income for the year is for the most part fixed by the decisions taken when the budget was adopted. After that the important thing is to see that spending compares with what was originally planned, in order to know whether the expected or authorized relationship between income and expenditure will be achieved. Trading undertakings cannot estimate their income so firmly. It depends on consumers' demand and not on taxes and imposts which the citizen is obliged to pay. To achieve the right relationship between income and expenditure is not a matter of keeping to definite expenditure plans but of being constantly ready to adjust spending to offset changes in income or vice versa.

Top management are primarily interested in the final result for the year—the total output, income and expenditure and the net surplus or deficit on revenue account. They therefore require budget comparison statements to tell them (i) how far the net result is likely to be better or worse than the budget, and (ii) the reasons for any such variation—whether it is due to variations in income or expenditure, and whether these are attributable to output, the cost of labour and materials or efficiency in operations. In particular, they seek to distinguish variations which may be due to factors outside their control, such as fluctuations in demand or changes in wages and raw material prices, from variations in output or production standards for which part of their own organization can be held directly responsible. The cause of the variation will determine the action taken to redress it: higher selling prices may be justified to cover a wage increase where they would not be accepted to offset a decline in operating efficiency. Below top

management, managers at every level will also be expected to compare their results with their portion of the budget. In some cases this covers both income and expenditure, so they are expected to keep watch on profitability as well as output and efficiency. Elsewhere, especially at the lower levels, the budget is concerned only with expenditure, leaving higher management to consider how far any variations in costs will affect earnings or be balanced by corresponding variations in income.

The monthly budget variation statement produced by one of the gas boards illustrates how variations can be analysed according to their causes. Cumulative results for the year so far are set out under the following headings:

Original Budget Surplus.
Increased Costs/Decreased Income:
  Gas output.
  Gas production standards.
  Gas sales.
  Wages, salaries and pensions.
  Profit margin on sales of appliances.
  Pricing and other items.
Decreased Costs/Increased Income:
  Gas output.
  Gas production standards.
  Gas sales.
  Wages, salaries and pensions.
  Profit margin on sales of appliances.
  Pricing and other items.
Revised Budget Surplus.

Top management receive a summary of the results for each sub-area, broken down under these main headings. This enables them to see at a glance whether the net results so far are better or worse than expected and to locate the sub-areas and items responsible for any variations. Variances in income and expenditure can be traced back, through the more detailed working sheets, to the precise factors and persons responsible. Thus top management are able not only to keep check on their overall net earnings, but will also detect and investigate any adverse varia-

tions which in the aggregate are concealed by favourable variances in other items or in the results of other sub-areas or districts.

The National Coal Board keep a running check on their financial results by means of monthly statements showing colliery profits and losses, both in total and per ton of saleable output, and the difference between actual and forecast results. As regards expense items which vary with output, it is the unit costs which provide the significant criteria in assessing efficiency. For fixed costs, however, the total budgeted expenditure is the appropriate yardstick. For non-operational expenses, therefore, spenders can be expected to work within a fixed annual budget. For colliery operations the intention is to assess results against standard costs to isolate variations in efficiency from the effects of fluctuations in output.

British Overseas Airways Corporation have a system of flexible budgeting in which the budget itself is altered to allow for any differences between the services actually provided and what was assumed in the budget. The original estimates are amended by using a 'standard cost per flight'. This is derived from the budget by dividing the total estimated costs by the number of flights. The 'standard cost' is divided between fixed and variable items. The variable costs attributable to any extra or cancelled flights are added to or deducted from the estimates to arrive at an 'allowed cost' for the service in each accounting period. Thus if eighty-eight round trips were budgeted at a 'standard cost' of £10,000 per round trip, of which £6,000 represented fixed costs, and ninety-three round trips were flown, the 'allowed cost' would be reckoned as

Standard cost of 88 flights budgeted		£880,000
Standard cost of 5 additional flights ...	£50,000	
minus fixed costs included in the above	£30,000	
		£20,000
Allowed cost of 93 flights operated		£900,000

The 'standard' and 'allowed' costs are both analysed departmentally, and departments are called upon each month to

explain how their actual expenditure differs from the 'allowed cost'. Variations attributable to extra or cancelled flights are calculated centrally for each week of the monthly accounting period. The results are summarized in weekly statements for top management as follows. Adverse variations are printed in a different colour type, represented here by bold type.

		Week x
		£
1. BUDGETED SURPLUS/DEFICIT		6,075
2. REVENUE	£	
Budgeted	715,000	
Earned	675,285	
Better/Worse in Revenue		**39,715**
3. COST OF FLIGHTS		
Budgeted	708,925	
Flown (at Standard Rates including fixed expenditure of extra/cancelled flights)	678,881	
Increase/Decrease in Variable Expenditure		30,044
4. ROUTE RESULT against allowed cost ...		**3,596**
5. EXPENDITURE VARIANCES		62,651
6. ACHIEVED SURPLUS/DEFICIT		59,055

In this hypothetical week, the result calculated from 'standard costs' would have been a deficit of £3,596 instead of the budgeted surplus of £6,075. But expenditure in previous periods had been £62,651 less than the 'allowed costs'. This would turn the deficit of £3,596 into a surplus of £59,055. Corresponding cumulative results for the year are given in the same table.

Revenue and allowed costs are calculated each week by evaluating statistics of the traffic actually carried at the budgeted rates. At four-weekly intervals, these calculations are tested by sampling methods and any difference is declared as a variance. Expenditure variances are taken from the four-weekly departmental accounts as soon as they become available, each week's

statement including the net total of all variances reported during that week. The weekly statement is not a precise account of actual results at the end of the week, but a summary reckoned from the most up-to-date information available of how results are likely to compare with the budget. In fact, the calculations based on standard costs have proved extremely accurate and the net total of all expenditure variances reported during the year have usually been well under 1 per cent of the total expenditure on revenue account.

The weekly accounting statements thus give management an up-to-date summary of overall financial results, how these differ from the budget, and to what extent this is due to variations in the number of flights operated, or in the revenue from or costs of operating a given number of flights. The causes of each group of variations are analysed separately. Revenue variations and differences between budgeted and allowed costs are analysed by routes to show which are earning more or less than expected. This helps top management to decide whether to put on more or fewer flights than originally planned. The analysis of expenditure variances, on the other hand, is intended to satisfy the management that expenditure is being properly controlled at lower levels. Each department, before reporting its monthly variances, is supposed to examine them in detail to discover the cause and to take any corrective action possible without delay. The departmental reports distinguish variances due to new factors from those whose cause has already been reported in previous periods. Departments are also encouraged to report more fully on those items over which they have most real control. The Flight Operations Department, for example, makes an exceptionally full analysis of variances in fuel and oil costs for each type of aircraft and the Engineering Department does the same for variances in manpower employed on engine overhauls.

By contrast with British Overseas Airways Corporation, some area electricity boards have two separate, though interrelated, sets of statements. Top management watch aggregate profitability through the Trading Estimates, which are revised quarterly to show the trend of net earnings. They provide the basis on which changes in tariffs are sought if adverse variances do

not appear capable of being offset by improvements in efficiency. Efficiency at lower levels is watched through Revenue Expenditure Budgets, confined to expenses within the control of the operating units and not directly affected by the amount of electricity sold. Headquarters require quarterly statements of budgeted expenses and investigate any marked discrepancies. The operating units are expected to keep much closer monthly or weekly checks. In some cases weekly labour cost statements are supplied to local managers, because these are more rapidly and easily prepared than total costs and, being the largest part of the Budget, they give a fairly reliable indication of total expenditure for the period.

In the Central Electricity Generating Board, Regions, Divisions and Project Groups prepare periodical statements of actual expenditure against their Revenue Budgets for their own management purposes and to help in preparing the revised Budgets which they have to submit for Board approval from time to time. Generating Board headquarters make quarterly revisions of their Trading Forecasts, from which they are able to ascertain any marked changes in the overall results expected for the current and two or three following years. They have also instituted a monthly Trading Account to show aggregate results to date on a cumulative basis throughout the financial year.

The common features which distinguish the budgetary systems of all these industries from those of most non-trading public authorities may be summarized as follows:

(1) The budgets and control statements are designed to show the causes of variations, analysing them between output and standards or controllable and uncontrollable expenses, and also by the persons or departments responsible: much more is done to show this data on the statements themselves instead of leaving them to be discovered from follow-up investigations or covering reports.

(2) The stress on applying budgetary control at intermediate and lower levels, making each manager responsi-

ble for keeping to his allotted portion of the total budget.

(3) The frequency of budget comparisons, especially at the lower levels where the process is simpler.

(4) The breakdown of the budget into shorter periods for control purposes, monthly accounting periods being the most common for top level reviews.

(5) The use of short cuts to give an indication of interim results more rapidly than waiting for the full accounts, as by supply labour costs only or by the 'standard costs' of British Overseas Airways Corporation.

Retrospective Scrutiny of Results

The nationalized industries place relatively less emphasis than most non-trading authorities on comparing actual results with the budget after the end of the year. At this stage, the ultimate financial test of their success is whether they have earned sufficient to comply with the statutory obligation to earn sufficient to cover their expenses on revenue account, taking one year with another. Interim budget comparison statements help them to achieve this object by keeping check on the trend of net earnings and the efficiency of operating units. The budget comparisons for the full year come too late to do anything about that year's results, and as a guide to future policy they are greatly inferior to the new budget for the year then beginning. A retrospective comparison may be more use as a check on efficiency, but when comparisons are usually made at much more frequent intervals during the year the final check is unlikely to disclose much that was not already known. By the end of the year management are more interested in looking at the budget for the following year to see what can be done to improve future earnings and efficiency.

One of the statutory provisions for public control over the nationalized industries is that their annual accounts should be audited by professional auditors appointed by the minister and then presented to the minister and laid before Parliament together with an annual report of their activities. Since 1956–57 the House of Commons has set up each session a Select Committee on Nationalized Industries (Reports and Accounts) to

examine and report on these documents. The Public Accounts Committee also have the right to examine nationalized industries' accounts, although they do not have the benefit of a report from the Comptroller and Auditor General thereon. Prior to the establishment of the other Select Committee, the Public Accounts Committee occasionally examined the accounts of one or more nationalized industries within their purview, but it now seems likely that they will leave them to the Committee specially set up to consider them. The latter are adopting the procedure of looking into each industry in turn and not trying to report on them all every session. Their inquiries deal with a selection of leading issues relating to their policy and efficiency, carefully chosen to avoid trespassing on matters involving either government policy or details of day-to-day administration.

This parliamentary control, however, is in no sense a form of budgetary control. The revenue budgets are not made available to Parliament as a yardstick against which to judge the results. The late Comptroller and Auditor General once suggested that the nationalized industries might be asked to supply a brief annual estimate of their total income and expenditure. This, he urged,

> 'would give Parliament at the end of the year the means of comparing what had been expected at the beginning with what the out-turn was; and that gives a very fruitful means of considering the general financial efficiency of the undertaking'.[1]

The suggestion has not, however, been revived in practice by subsequent Select Committees on Nationalized Industries (Reports and Accounts). To compel the nationalized industries to lay their revenue budgets before Parliament would raise serious difficulties. The industries might be hampered in their commercial operations through having to publish their estimated results in advance, and the public might be misled by making broad comparisons of results with the estimates without suf-

[1] *Report from the Select Committee on Nationalized Industries*, H.C. 1952-53/235, q. 114.

ficiently understanding the causes of the variations and how far they were within the control of the undertaking.

In this connection, the British approach is in sharp contrast with the exceptionally strict budgetary controls imposed by Congress over wholly-owned federal government corporations in the United States. The Government Corporations Control Act, 1945,[1] brought them within the annual budgeting and accounting system of the federal government. Their estimates must be approved by Congress as part of the President's budget, and their accounts audited by the Comptroller-General. The Act makes some allowance for the commercial character of the corporations by requiring them to present 'a business-type budget' and specifying that the audit be conducted 'in accordance with the principles and procedures applicable to corporate commercial transactions'. In practice, however, the governmental as opposed to the commercial approach has determined the spirit in which these provisions have been interpreted. Once the staff of the Comptroller-General had been expanded by recruiting large numbers of professional auditors, the application of the Act has created no insuperable practical difficulties. A senior official of the Budget Bureau has pronounced it 'highly successful and . . . a notable advance in the art of public administration'.[2] Yet the present system 'goes far towards . . . eliminating the features which have made government corporations useful instruments for enterprise purposes'.[3] It should be remembered, however, that few federal government corporations are self-supporting commercial concerns comparable to the British nationalized industries. For the latter, it has been essential to pay more respect to the need for managerial autonomy in commercial undertakings by treating budgetary control of expenditure on revenue account as a matter for the corporations themselves, leaving the 'break-even' test and the annual reports and accounts as an adequate basis for Parliament to review their operations without hampering their efficiency as trading concerns.

[1] 59 Stat. 597, 31 U.S.C.A., SS. 841-871.

[2] Seidman, H. The Government Corporation in Hanson, A. H. (ed.), *Public Enterprise* (Brussels, 1956), p. 47.

[3] Cited by Abel, A. S. 'The Public Corporation in the United States', in Friedman, W., *The Public Corporation*, (Toronto, 1954), p. 357.

CONCLUSION

(1) Comparisons of results with the budget are necessary both during its currency and retrospectively after the accounts are closed. Their frequency should be decided according to the level of management for whom they are intended, the cost and time required to produce them, and the extent to which deviations from the budget are likely to arise and might otherwise go undetected.

(2) Such comparisons are essential (*a*) to keep the estimates up to date for policy-making purposes, and (*b*) to keep check on performance by investigating deviations from the results originally expected—the technique known as 'control by exception'.

(3) 'Control by exception' is valuable for maintaining simple, rapid and effective control over subordinates, thus facilitating delegation of authority within large and complex organizations. The budget comparison statements should therefore be designed to explain the reasons for variations and pin-point the individuals responsible.

(4) The important point in all comparisons is to see that the main intentions of top management are respected. This involves much more than a detailed, legalistic check on compliance with each item allowed for in the budget. It also means seeing that, within the limits set by the budget, the best possible value for money has been obtained. This can often only be done by referring to other records and making empirical investigations. The formal budget comparison statements must be regarded as the starting point for the inquiries and remedial action that alone, by both their positive and their deterrent effects, will result in improved financial efficiency.

CHAPTER VIII

BUDGETING FOR CAPITAL EXPENDITURE

THE last twenty years have seen a striking increase in public authorities' capital expenditure. In 1938 gross capital expenditure on fixed assets in the public sector was less than half that of the private sector—£199 million as against £457 million. By 1957 the public sector's share in money terms, had increased sixfold, to £1,502 million, while that of the private sector at £1,900 million was only about four times greater than in 1938. Over the whole period 1948–57 public authorities' capital expenditure was almost equal to that in the private sector—£11,177 million as compared with £11,849 million—and in four years, 1951–54, it was greater. Part of the increase in the share of the public sector resulted from the nationalization, between 1946 and 1950, of several major industries with large capital investment programmes, but there was also a large volume of investment by the central government and local authorities. Of the total gross expenditure on fixed assets in the public sector in 1957, local authorities accounted for £585 million, public corporations for £671 million and the central government for £246 million.[1]

The proportion of capital to current expenditure varies between the different types of public authority and within each group. The following table illustrates the position in the most recent years for which figures are available:[2]

[1] *National Income and Expenditure, 1958*, H.M.S.O., 1958; Hicks, U. K., *Public Finance* (1953), p. 99.

[2] *Sources: National Income and Expenditure, 1958* (central government and local authorities); *Post Office Commercial Accounts; Annual Reports and Accounts* of the National Coal Board, Gas Council, Electricity Council, Central Electricity Generating Board and Central Electricity Authority, North of Scotland Hydro-Electric Board, South of Scotland Electricity Board, B.E.A., B.O.A.C.; Ministry of Health

	Year	*Expenditure in £ million* Current	Capital
Central Government ...	1957	5,526	246
Local Authorities	1957	1,395	585
Hospital Boards*	1957–8	343	19
National Coal Board ...	1957	943	103
Gas Boards...	1957–8	386	56
Electricity Supply* ...	1957–8	458	240
Airways Corporations ...	1957–8	84	44
Post Office	1956–7	359	103

* England and Wales only

In the central government and the hospital service capital expenditure was less than one-twentieth of current expenditure. Among local authorities, the ratio was nearly one to two, tending to be higher for housing authorities than for county councils, who have no housing programmes. Among nationalized industries, the proportion of capital to current transactions ranged from little more than 10 per cent in coal mining to over 50 per cent for electricity supply and civil aviation.

The high and expanding volume of capital expenditure has drawn attention to the special problems and characteristics of budgeting for capital transactions. One important difference between capital and revenue budgets lies in their relationship to other controls on expenditure. In both cases effective control demands that approval of the budget controls be supplemented by specific financial approvals for new items of expenditure. In the case of current expenses by far the largest part of the budget is normally for continuing items or services already sanctioned perhaps many years ago. So long as the same pattern of operations continues, the budget provides the only occasion when such expenditure is brought under regular review. With capital expenditure, however, each item is a once-and-for-all outlay for a distinct job or purchase needing specific sanction. The budget is a summary of estimated expenditure on projects

(hospital boards). The figures for hospital authorities do not include capital charges as a current expense; those for central and local government include interest but not depreciation. The figures for the central government include expenditure by the Post Office and hospital authorities but this is reckoned on different bases from the separate figures; thus central government capital expenditure here includes £105 million for the Post Office.

each of which has been approved or will shortly be put forward for authorization. Hence for capital outlays the importance of budgetary control as compared with control through authorizing new expenditure tends to be less than it is with current transactions.

Another reason for this difference of emphasis is that the amount spent over a given period of time is not the main financial criterion of efficiency for capital work. What matters most is the cost of completing the whole project. This has to be controlled by examining the estimated total cost before authorization and using this figure as a yardstick with which to compare actual expenditure, both as the work proceeds and upon its completion.

In examining the uses of capital budgets, therefore, the main question is to consider how budgetary control can be employed to supplement the financial control carried out on a project-by-project basis: what is the value of preparing estimates of the total capital transactions within a definite period; how can they assist in making policy or controlling its execution; and what special administrative procedures do they involve. This chapter describes the methods of budgeting for capital expenditure in each of the four main groups of public authority in this country. The following chapter examines the process of carrying out a capital budget and the administrative difficulties to which this may give rise.

Different Kinds of Capital Budget

Before looking at the arrangements in each group of authorities, some general points of terminology must be clarified. Two distinct kinds of budget are usually needed for capital transactions. These were defined in Chapter I as 'capital expenditure budgets' and 'finance budgets'. A capital expenditure budget is concerned with acquisitions and disposals of fixed assets. It is derived from estimates of expenditure during the period on all jobs or purchases of a capital nature. The finance budget deals with the money required for capital expenditure or by way of working capital. It shows the amount likely to be available from depreciation provisions and other internal resources, and the

balance which will have to be found from external sources, usually by borrowing. It is thus a reflection of the capital expenditure budget and the estimated net earnings on revenue account. It is normally considered in close conjunction with the capital expenditure budget and this chapter will therefore deal with the two concurrently.

Both capital expenditure and finance budgets may be long-term or annual budgets. Since much capital work has to be planned some years before completion, long-term budgets may be drawn up for periods of perhaps three, five or even ten or fifteen years ahead. Separate estimates are usually made for each of the years covered. Those for the more distant years are necessarily less precise, but can be regularly revised whenever the time comes to prepare a new budget, extending further into the future. For the year immediately ahead, there is often a special annual budget, in more detail than the long-term budget. As the following sections show, it is frequently necessary to employ both long-term and annual capital expenditure and finance budgets for different purposes within the same organization.

THE CENTRAL GOVERNMENT

Capital Expenditure in the Central Government

The United Kingdom has no distinct capital expenditure budget for the central government. The one annual Budget embraces both current and capital transactions. This accords with the traditional practice in central government budgeting which continues to be followed in many other lands, including both commonwealth and continental countries and the federal government of the United States.

The absence of a separate capital budget need not imply that all capital expenditure is included in the budget without differentiation from current expenses. It is customary in many countries to exclude from the budget a number of items of a capital nature or to show them in a separate section as a charge on special funds. The United Kingdom Budget distinguishes the 'above the line' expenditure to be financed from revenue from 'below

the line' items which may be met by borrowing. There is a somewhat similar distinction in Australia between the Commonwealth's Consolidated Revenue Fund and Loan Fund expenditure, and in Italy between the government's 'effective expenditure' and the 'movement of capital'. In each case the distinction depends primarily on the method of financing and is in no sense intended to segregate current and capital items. A high proportion of both governments' capital outlays is usually met from current revenue, and appears in the same section of the budget as their current expenditure.

A few foreign governments have separate budgets for current and capital expenditure. Sweden has an 'ordinary budget' covering current transactions and capital charges on fixed assets, and a 'capital budget' drawn up as an annual plan of capital investment by the central government. The Netherlands budget separates 'Ordinary', that is current, from 'Extraordinary' items, the latter being subdivided between capital transactions and other items such as post-war rehabilitation measures which for various reasons have been spread over a number of years.

The Swedish capital budget is designed primarily to assist in planning state investment so as to combat any threat of economic recession. The capital budget proper is supplemented by an 'emergency budget' containing a reserve of capital works authorized provisionally in case it should become necessary to increase public investment to offset a decline in employment.

In the Netherlands budget, an important objective has been to segregate capital and current items as a preliminary to installing cost accounting as a control on efficiency in government departments. Like the Swedish system, this demands that estimates and accounts be kept on an income and expenditure basis, in order to show the true cost of goods and services provided during the year, including capital charges on fixed assets and working capital.

In the United Kingdom the Budget and the main government accounts remain on a cash basis. The suggestion of supplementing this by income and expenditure accounts was rejected by the Committee on the Form of Government Accounts in 1950, except as regards trading activities for most of which

Trading Accounts were already published. The Committee saw 'no practical advantage to be secured from the adoption of an income and expenditure basis of accounting in respect of administrative services'.[1] The tests of profitability by which capital projects are judged in a business undertaking were not, they felt, relevant to government expenditure outside the trading services.[2] In addition, there appeared to be 'insuperable practical difficulties'[3] in valuing capital assets and estimating their probable life for depreciation purposes. As regards the measurement of capital investment for purposes of economic planning, the Committee advocated that separate 'policy accounts' such as the annual estimates of national income and expenditure should continue to be used without interfering with the more precise cash-based Estimates and accounts that were desirable for purposes of accountability to Parliament.[4]

At the same time, the Committee urged that the form of cash Estimates and accounts be designed to inform Parliament and the public which items were of a capital nature:

> 'It ought to be made possible to pick out from the Appropriation Accounts all expenditure of a capital nature. . . . All capital expenditure which is borne on Votes should, we suggest, be marked off from other expenditure by the use of distinct Subheads. This would make for greater clarity in the presentation of the accounts, besides giving information now lacking.'[5]

This principle, where not already followed, has since been generally adopted. The Treasury's annual Estimates Circular reminds departments that, in services where there is any substantial amount of capital expenditure, it should be shown in separate Subheads. These Subheads, designated by such titles as 'New Works' or 'Capital expenditure' constitute the departments' annual capital expenditure budgets. These are of course on a payments basis. Sometimes they are supplemented by more tentative informal long-term capital expenditure budgets.

[1] *Final Report from the Committee on the Form of Government Accounts,* Cmd. 7869/1950, para. 50.

[2] *Ib.*, para. 45. [3] *Ib.*, para. 46. [4] *Ib.*, para. 18–27. [5] *Ib.*, para. 72.

Separate finance budgets are not normally required, as when Parliament authorizes payments in the Estimates it invariably goes on to authorize the issue of money from the Exchequer to finance them.

Annual Estimates

All government departments do not undertake sufficient capital expenditure to warrant special capital Subheads in their Estimates. Among the largest capital spenders are the Ministry of Works, the Ministry of Transport and Civil Aviation and the Post Office. The Ministry of Works is responsible for capital expenditure on government offices and other public buildings in the United Kingdom and abroad. In 1956–57 capital expenditure amounting to £6½ million was incurred on the capital Subheads of the Ministry of Works' Votes and another £25½ million was spent on capital work carried out by the Ministry on a repayment basis, mainly for other government departments. The Ministry of Transport and Civil Aviation in the same year spent over £13 million on new construction and major improvements on highways and this figure is due to rise to £60 million when the current Road Programme reaches its peak. Highway construction is carried by local authorities to whom the Ministry pays the full cost of work on trunk roads and an agreed percentage of their expenditure on classified roads. The Ministry is also responsible for capital expenditure at aerodromes, some £3 million in 1956–57. This is mostly carried out on a repayment basis by the Air Ministry's Directorate-General of Works. The Post Office has the largest capital expenditure of any department. In 1956–57 it spent about £100 million for capital purposes. Most of this was for engineering work undertaken by Post Office employees or outside contractors, but Post Office building work of a capital nature is carried out by the Ministry of Works on a repayment basis.

Capital subheads in the annual Estimates set out the total payments to be authorized for such broadly defined categories of work as 'Trunk Roads' or 'New Works' on public buildings. Separate details of each of the larger schemes are usually given,

showing their estimated total cost, expenditure to date, estimated payments in the coming year, the date of authorization or commencement, and the expected year of completion. The Ministry of Works show details there for all new works financed from their own Votes, which are in progress or proposed to be started, for which the total estimated cost exceeds £10,000. Their total Estimate for capital work on public buildings is broken down into the estimated payments on each of these schemes, a 'lump sum cut' to allow for schemes falling out during the year, a lump sum estimate for minor works under £10,000, and a further lump sum for urgent and unforeseen works. This last item, it should be noted, is exceptional in central government budgeting, as no contingency provisions are usually allowed. The Ministry of Transport and Civil Aviation list all civil aviation schemes over £10,000 in the case of civil aviation, but for highways only those costing over £250,000; in both cases they list only the works in progress and not the proposed new starts.

The annual Estimates for capital work are prepared in much the same way as those for current expenses. The initial figures are supplied by those directly responsible for spending and gradually brought together and re-examined at several successive stages within the departments. There is generally some revision at each stage, either to make them more realistic in relation to probable progress or costs, or to reconcile them with the total volume of capital investment likely to be allowed. The figures agreed within the spending department are presented to the Treasury, where they are reconsidered against the broader issues affecting the total share of the nation's resources devoted to capital investment. Further restraint or acceleration of proposed capital expenditure may then be called for in order to combat inflationary or deflationary trends in the national economy.

The preparation of the annual Estimates is thus a time for trying to regulate the total volume of capital work according to the resources available. This involves reviewing progress on works in hand and plans for schemes due to start during the year, and adjusting these where necessary. The greater part of

a department's Estimates usually consists of instalments on schemes already begun, is reckoned by estimating the progress likely to be made on each scheme during the year and the payments which will fall due as a result. Once work has started, little can be done deliberately to alter the estimated payments in any particular year. Most of these will be in respect of commitments already entered into, and significant reductions in the Estimates would probably involve substantial liabilities for compensation to contractors and add materially to the total costs.

The other two elements in the annual capital expenditure budget, although often a relatively small part of the total, offer much more scope for reducing the amount spent during the year without adding materially to the total cost of the work. These are the provisions for major works scheduled to start during the year, and lump sums for smaller capital works of which no individual details are given.

Savings on the annual estimates for major works not yet started might be achieved by deferring the start of certain jobs until later in the year or postponing them altogether until a later year. The amount that can be saved in this way is limited by the fact that most large jobs take several years to complete and only a small proportion of the total payments fall due in the first year. For the general run of highway projects other than exceptionally large schemes, it is reckoned that on the average expenditure is spread over five years and only 10 per cent of the estimated total cost of a scheme will be paid in the first year, compared with 20 per cent in the second year and 30 per cent in each of the next two years. Nevertheless, adjusting the timing of new starts is usually the principal means of regulating the total amount spent during the year. It is administratively simpler and in the long run more economical than trying to slow down schemes in progress, and an easier way to find substantial savings than by trying to reduce the estimates for minor projects.

In the annual Estimates for minor capital works, more attention is given to the total expenditure and less to the individual schemes, a high proportion of which will not be authorized until

after the total Estimate is settled. Substantial alterations in the Estimate can therefore be made if necessary without holding up work already started. Hence minor works may have to bear a disproportionately large share of any cuts that have to be made in a department's annual estimates for capital expenditure.

Expenditure on major capital schemes cannot be planned and controlled on a year-to-year basis. So much of the Estimates represent firm commitments that only small marginal changes can be effected by deliberate adjustments in spending plans when the annual Estimates are prepared. Long-term capital expenditure budgets are needed if schemes are to be planned and authorized in relation to an overall programme of capital development. A long-term capital expenditure budget can help to ensure the best use of limited resources by making departments examine their future needs as a whole before deciding on individual projects, which can then be planned and authorized in an agreed order of priority. A long-term budget also enables the total amount of work authorized to be regulated, with a view to keeping the total annual payments to a pre-arranged level.

Long-Term Capital Expenditure Budgets

Government departments have nevertheless appeared reluctant to adopt long-term budgeting for capital expenditure. In part, this springs from the universal difficulty of making reliable forecasts for several years ahead. In the private sector, this is generally recognized, but long-term budgets are drawn up on the assumption that, provided they are brought up to date regularly, their value as a guide in planning is not destroyed by the inevitable lack of precision in the more distant years. In the public sector, however, there are additional disincentives to long-term budgeting. Because they could not expect to obtain the same degree of accuracy as is sought in the annual Estimates, ministers hesitate to commit themselves to tentative long-term budgets which might well have to be materially altered at a later date. A further element of uncertainty is added by the prospect of a general election, in Britain never more than five years ahead, and the change of ministers and policies which

frequently ensues. Nowadays, moreover, government economic policy uses variations in public investment to counter variations in the flow of private spending. The latter cannot be foreseen by government departments, who are consequently unable to foresee in which way the Treasury will try to swing the total of capital investment in the public sector. The greater publicity given to government budgets and plans as compared with those of private firms also discourages the adoption of long-term budgets to which it might well prove impossible to adhere. It is also argued that long-term budgeting is impossible because Parliament will only authorize expenditure on Supply Services for a year at a time. This does not, however, preclude tentative long-term budgets of capital payments, which would remain conditional on Treasury sanction of each individual project and parliamentary authorization of expenditure through the usual annual Estimates procedure.

A long-term budget may, of course, be prepared and used by a department as a guide in preparing individual projects for approval without being publicly announced or formally endorsed by ministers or the Treasury. The Ministry of Works, for example, has a number of long-term programmes for local and provincial office buildings, including one to permit the release of all requisitioned buildings and another to relieve the most serious cases of inferior or overcrowded accommodation. Both these received the general approval of the Treasury on the understanding that this did not commit them to authorize any scheme. A third programme, covering all new building work in local and provincial offices for a ten-year period did not receive even a general approval from the Treasury but is retained by the Ministry for general guidance in its own planning.

Of the long-term budgets of capital payments in current use, some originated primarily as assessments of absolute needs and priorities. In others the emphasis has been on keeping total expenditure within predetermined limits and using these funds to the best advantage. Post Office building programmes may be quoted as an illustration of the former use of long-term budgets, while the most prominent example of the latter are

the Road Programmes of the Ministry of Transport and Civil Aviation.

The present system of Post Office building programmes was inaugurated in 1952. In 1956–57 capital payments for this purpose were at the rate of £8½ million a year, and 174 new buildings were started during the year. The building programmes are derived from long-term estimates of demand and agreed standards of accommodation to cater for it. Regions are asked for estimates of their needs, classified in three categories of urgency in accordance with standard definitions laid down by Headquarters for all kinds of building work. Broad estimates of building needs for five years ahead have been made to give a general indication of the amount required. The final building programme for each year is based on estimates, prepared annually, of work to be completed in the second or third year ahead. The Ministry of Works, who carry out this capital work on a repayment basis, are given a classified list of priorities for the country as a whole and asked to tackle the schemes as far as possible in the order indicated. The Ministry then draw up the final programme of schemes to be started in the year.[1]

Under the original procedure, this whole exercise, until the last stage, was a process of estimating relative and absolute needs, in order that limited resources could be applied where the needs were most urgent. Until they reached the Ministry of Works there was no attempt to keep the estimates within what was likely to be allowed. Great importance was attached to presenting estimates of absolute needs, as measured by agreed standards, in order to influence the Ministry and the Treasury to devote more manpower or other resources to Post Office building work. Once a clearer understanding had been reached on the long-term requirements, however, the procedure was changed by allocating each Region an approximate sum within which to contain its initial requests.

Road programmes have always been conceived within a definite financial ceiling, expressed in terms of (i) the average annual payments when the programme is fully under way and

[1] Baker, R. J. S., 'Post Office Building Programmes'. *Public Administration* Vol. xxxvi, Summer 1958, pp. 125-143.

(ii) the work to be authorized in each year in order to result in that expenditure. The limits are agreed between the Minister of Transport and Civil Aviation and the Chancellor of the Exchequer as representing the share of national resources which, as far as can be foreseen, can be devoted to this kind of investment. The first programme of this kind, announced in 1952, provided for authorizations averaging about £15 million a year for all government investment in roads in Great Britain. This figure was raised to £40 million in 1955 and again to £60 million for England and Wales only in 1957.

Road programmes set out the new commitments to be authorized, the estimated payments against these schemes, and the total annual payments including carry-overs on earlier authorizations in each year of the programme. The following is a summary of a hypothetical programme in which the agreed average level of commitments was not to exceed £50 million a year:

£ million

	Commit-ments.	*Payments under Programme*	*Payments outstanding on earlier schemes*	*Total payments during the year*
1st year	29	2	6	8
2nd ,,	47	10	7	17
3rd ,,	51	22	6	28
4th ,,	77	31	3	34
5th ,,	49	42	2	44
6th ,,	36	52	1	53
7th ,,	31	50	1	51
8th ,,	60	49	1	50
9th ,,	65	50	—	50
10th ,,	53	50	—	50

The road programmes formally agreed between ministers and announced to Parliament have usually covered a period of three or four years, this being as far as governments have felt able to commit themselves even tentatively for the future. It is not, however, long enough to develop a major programme of capital investment in which the larger schemes take several years to carry out. The programmes announced to Parliament are therefore founded upon longer-term programmes, covering perhaps eight or ten years. These are agreed in principle between

the Ministry and the Treasury, with the cognizance of ministers, as the overall planning programme within which the government can decide the more detailed four-year programmes.

Once the average annual authorizations are agreed, a programme is built up from separate estimates of the total cost of each major scheme, and a lump sum provision for smaller capital works. A four-year programme lists all schemes over £100,000; a ten-year programme perhaps only those over £500,000. These schemes are of course subject to variation if priorities change as the programme develops. Special estimates of the incidence of payments in each year are worked out for some of the very largest schemes. For the majority of schemes, however, this is calculated by a formula based on accumulated experience of the average percentage of the total cost paid out in each year between authorization and final settlement. Although payments on individual schemes vary considerably from the average, over the large number of schemes undertaken the variations have been largely counterbalancing and total payments have proved extremely close to the estimates.

Roads programmes are not prepared at regular intervals but as and when ministers have decided to seek a change in the agreed level of authorizations. Much deliberation at ministerial and official level ensues before agreement is reached on the exact size of the new programme. Desirable schemes are reviewed in greater detail as to their priorities, their probable cost and the time needed for their completion. The Ministry may work out alternative programmes for discussion before the government agrees on a definite programme. Very large schemes of major national importance, such as the new Motorways or the Forth and Severn bridges, are initiated centrally. Otherwise proposals for individual schemes mostly emanate from local highway authorities and the Ministry's nine Divisional Highway Engineers, who advise on needs and priorities for their particular areas. Ministry headquarters weld their recommendations into a co-ordinated programme for the country as a whole, endeavouring to ensure not only the end-to-end improvement of the main trunk road but also as far as possible

an equitable distribution of resources between areas and a proper correlation between the volume of work planned and the highway engineers and other personnel likely to be available in each area at any particular time. Great attention is given to securing a proper order of priority among recommended schemes, and efforts have been made to develop indices of population, road mileage, traffic volumes and so on as a guide to relative needs.

So far the emphasis has been on deciding relative priorities among the most urgent needs rather than estimating absolute needs, as was done for Post Office building programmes. A start has been made, however, on working out, in the light of the latest information on traffic trends, what the country's road system will ultimately need to be. A special planning section has been set up in the Ministry to undertake this task. Work on a trunk road master plan was begun in 1957. This will take a long time to complete, but the data collected has already proved useful in current planning for determining the relative urgency of many competing schemes. Eventually, it should be possible to draw up all road programmes as instalments in completing the 'ideal' highway system.

Post Office Capital Expenditure and Finance

Post Office capital expenditure is financed and controlled by special arrangements designed to suit a self-supporting trading department. Its Commercial Accounts include provisions for depreciation as a current expense, which is therefore matched by income from Post Office charges flowing in to the Exchequer. Capital expenditure not covered by depreciation provisions is financed from borrowing 'below the line' under authority of special Money Acts. This is shown in the Commercial Accounts as an interest-bearing loan from the Exchequer.

Until 1958 all Post Office capital expenditure had to be divided between new development and renewals. Renewals were shown in the Commercial Accounts as financed from depreciation and appeared in the cash Estimates and Appropriation Accounts as expenditure on Supply Services out of money voted annually by Parliament. Depreciation was always

more than expenditure on renewals in the corresponding year, because depreciation is reckoned on the present size of the system and renewals reflect its small size many years ago. The difference was treated in the Commercial Accounts as an interest-bearing loan to the Exchequer. Expenditure on new development was financed entirely by borrowing under Money Acts, and did not figure in the Cash Estimates and Appropriation Accounts.

In 1958 the distinction between renewals and development was abandoned. It had proved difficult to apply because old equipment was usually replaced by something better, part of which had to be reckoned as an improvement. The full sum provided for depreciation in the Commercial Accounts will now be ploughed back into the business to finance capital expenditure and only the balance will be met from borrowing under the Money Acts. All capital expenditure will now appear in the annual Estimates, where the amount borrowed under Money Acts will be treated as an appropriation-in-aid.

Money Acts authorize the Treasury to issue specified amounts from the Consolidated Fund for the development of Post Office services. Issues are not restricted to any particular period of time. When Parliament is asked to pass a new Money Act, however, the government usually state how long the sum proposed is likely to last. The Post Office therefore prepares capital expenditure and finance budgets to show when it needs new statutory borrowing powers and to provide the information required by Parliament on these occasions. In 1957, for example, it was estimated that the £898 million authorized under previous Money Acts would be practically exhausted by March 1958 and that capital expenditure in the next two years might amount to £180 million, of which £105 million could probably be met from depreciation provisions.[1] A Money Bill was then introduced to authorize the remaining £75 million to be financed by further 'below the line' issues from the Consolidated Fund.

There are also distinctive arrangements for controlling the

[1] *Post Office and Telegraph (Money): Memorandum on the Proposed Resolution*, Cmnd. 318/1957.

total volume of Post Office capital investment. The Treasury does not rely primarily on its examination and revision of the annual Estimates as it does in the case of other departments. Instead an annual allocation for capital investment is agreed between the Post Office and the Treasury. In this respect the Post Office is treated like a nationalized industry instead of as other government departments.

The Post Office thus has considerable freedom in deciding the contents of its annual capital expenditure budget. Yet it is still hampered by not knowing until the previous autumn how much capital investment will be permitted in the year beginning in the following April. Because of the difficulties in planning capital investment when there are only annual allocations, the Treasury also gives the Post Office a tentative 'planning figure' for a further year ahead. The final allocation, however, has often differed substantially from this, and in any case much capital work is authorized and contracts placed two years or more before the major part of the expenditure is incurred. An indication of prospective allocations for three, four or five years ahead would be necessary to plan all capital schemes as a co-ordinated programme to make the best use of limited resources. As it is, any cuts tend to fall unduly heavily on the smaller items since the larger ones are already firm commitments before there has been even a tentative intimation of what the allocation is likely to be. A further complication has been introduced recently by setting the allocations in money terms instead of, as formerly, in real terms. This adds another source of uncertainty in long-term budgeting, as it is impossible for the department to forecast a year or two ahead what increases in costs they will have to meet out of a given capital investment figure.

THE HOSPITAL SERVICE

Annual Forecasts, Allocations and Estimates

The annual Estimates of the Ministry of Health include special Subheads for 'Advances on Capital Account' to Regional Hospital Boards and Boards of Governors of Teaching Hospitals. For 1958–59 the payments approved by Parliament amounted

to nearly £20 million, divided between four Subheads as follows:

		£
England:	Regional Hospital Boards	15,314,000
	Teaching Hospitals	2,945,000
Wales:	Regional Hospital Boards	1,554,000
	Teaching Hospitals	75,000
		£19,888,000

The Regional Boards and Boards of Governors are directly responsible for the planning and execution of capital investment in the hospital service. Hospital Management Committees have no statutory powers in this connection, although the Boards normally give them opportunities to suggest projects and priorities, and occasionally ask them to carry out small capital jobs as the agents of the Boards. About half the Regions also set aside small amounts out of their own capital Allocation for Groups to spend on capital work of their own choosing, but these Allocations have seldom exceeded a few hundred pounds a year even for the largest Groups and have never been more than a very small fraction of the Region's total capital expenditure.

The boards' capital expenditure is financed by advances from the Ministry out of the moneys provided annually by Parliament. The Ministry fix in advance an annual Allocation for each board and require them to prepare an annual capital expenditure budget within their assigned Allocation. As with hospital running costs, the capital expenditure Allocations and budgets are expressed on an income and expenditure basis. The Ministry control the boards in terms of income and expenditure although they themselves are accountable to Parliament on a cash basis. This means that before making their Allocations they have to estimate how far expenditure and cash transactions are likely to differ on account of changes in creditors' balances.

Capital expenditure Allocations and budgets are settled in much the same way as those for hospital running costs, with the important difference that provisional decisions about the capital

Allocations are now taken, and notified to boards, some time in advance of the relevant year. Each autumn the boards have to supply the department with Revised Estimates of their capital expenditure in the current year and Estimates of their requirements, within the Allocation provisionally notified earlier, for the following year. The government then decide the total amount to ask Parliament to approve for capital investment in the hospital service. This normally corresponds with the amount provisionally agreed. In 1958–59 details of the larger schemes on which the money is to be spent were for the first time given to Parliament in the published Estimates. The total amounts to be spent on smaller schemes and on special schemes for replacement of plant were also stated. This information is based upon the boards' Estimates. The latter are then approved, with or without modification, and become the boards' authorized programme of capital expenditure for the year.

In making these Allocations, specific sums (£6 million out of £20 million in 1958–59) are first set aside for very large schemes—such as the new surgical block at Guy's Hospital—chosen by the Minister from proposals put to him by boards. The remainder is allocated between boards for spending on schemes of their choosing. In recent years the Minister has required boards to spend specific sums from this Allocation on plant replacement projects (£3 million 1958–59) and on the modernization of mental and mental deficiency hospitals (£1 million in 1958–59). The Allocation for plant replacement has been made on the basis of the number of beds in each region; that for the modernization of mental hospitals on an assessment by the Ministry of the relative needs of each region. The balance of the Allocation to Regional Hospital Boards (£10 million in 1958–59) has been distributed mainly according to population. Allocations to teaching hospitals have been made after examination of their individual needs.

Estimates have to include particulars of the schemes on which the board proposes to incur expenditure. This is primarily for the Ministry's guidance as to the general needs of the service. They have a separate system of specific sanctions for individual projects costing over a certain amount. At first all

schemes over £1,000 required the Ministry's approval, but the limits have been raised, first to £10,000 and now to £30,000. The Ministry themselves need Treasury sanction for schemes over £60,000. There is thus an increasing tendency to leave hospital boards free to plan their own capital work within the limits set by their annual Allocations as to total expenditure and as to the choice of projects by the practice of earmarking described above. Their Estimates are derived from detailed programmes of individual schemes in progress or proposed to be carried out or started during the coming year, together with the estimated expenditure on each during the year. When the programme is first put together, the total estimated expenditure usually exceeds the Allocation and has to be pruned, mainly by deferring the less urgent among the schemes not yet started. The demand for annual Estimates thus compels boards to compile a comprehensive programme of capital work, decide priorities among proposed new starts, and adjust their plans to comply with their Allocation for the year. Even so the Estimates are not compiled until after most of the larger schemes have already been planned and authorized. Major schemes have to be agreed on in principle about three years before work starts, in order to allow sufficient time for detailed planning and Ministry and Treasury approvals. Only long-term capital expenditure budgets can therefore supply an overall plan to which detailed proposals for individual projects can be related.

Long-term Capital Expenditure Budgets

Long-term budgeting has been facilitated by recent developments in the annual Allocation system. Originally boards were notified of their annual Allocations for only a year at a time. In February 1955, however, the government announced the capital Allocations proposed for the next three years 1955–56, 1956–57 and 1957–58. Those for the second and third years were announced provisionally on the understanding that they might have to be altered in the light of other demands on national resources when the time came to present the necessary Estimates to Parliament. Without committing themselves irre-

vocably as to future Allocations, the government have thus given the boards valuable guidance as to the total capital expenditure for which to plan beyond the year immediately ahead. Similar announcements have been made from time to time since 1955, so as to keep boards informed of their probable capital Allocations for two or three years in advance. This has assisted them in selecting and planning individual schemes, although provisional announcements of the Allocation for four or five years would be necessary before a board could plan all its capital schemes from the 'approval in principle' stage, in relation to the total capital expenditure to be allowed for the years that it is in progress.

The health departments have provided another incentive to long-term budgeting by asking for a preliminary Forecast about eighteen months before the beginning of the financial year. This is in addition to the firm Estimates submitted four or five months before the year begins. When asking for the preliminary Forecasts, the departments tell the boards what their allocations are likely to be and ask for details of the schemes they propose to undertake. This means that boards must begin considering an integrated programme of capital work, within a definite financial ceiling, about eighteen months instead of only six or eight months before the year begins.

Some boards draw up special programmes on each of the two occasions when they are asked to submit a budget. That prepared for the Estimates may then bear little relation to that submitted earlier with the Forecast, as works in progress and new proposals are reviewed entirely afresh on each occasion. Other boards have comprehensive long-term programmes from which their Forecasts for the Ministry are derived. One Regional Board, for example, has a three-year Capital Programme listing all the schemes that have been approved in principle by the board, with their total estimated cost, the expenditure to date, and the estimated expenditure in the current year and each of the next two years. The aim is that schemes should be approved in principle three or four years before they are due to be carried out, so that the Programme includes all capital work to be undertaken within the three-year period. The whole

Programme is thoroughly revised about three times a year, when all estimates are brought up to date and any new schemes approved since the last revision are added. Once a year all Hospital Management Committees are asked to propose a certain number of schemes for addition to the Capital Programme, and these suggestions and any others put forward by headquarters departments are examined by regional board officers and by area committees who advise the Board on the relative needs and priorities of the different parts of the Region. Whenever Forecasts or Estimates have to be prepared, the total estimated expenditure indicated in the Programme for that year is reconsidered in the light of the allocation provisionally notified by the department. Where the two differ, the proposed starting dates of schemes in the Programmes are brought forward or deferred until the Programme agrees with the prospective allocation. Thus the Forecasts and Estimates are conceived as segments of a long-term capital expenditure budget instead of being drawn up *ad hoc* for a year at a time.

Such a long-term capital budget has to be confined to the Region's most urgent capital needs. It does not set out to include all that would be needed to achieve and maintain a predetermined standard of service. This has been discouraged by the difficulty of reaching agreement on what the desirable standards would be and by the financial stringency which has kept hospital building 'at a figure well below replacement level'.[1] The present form of Capital Programme, however, helps to ensure that really urgent needs are not overlooked and that proper priorities are observed in deciding between them.

LOCAL AUTHORITIES

The Use of Capital Expenditure Budgets

In budgeting for capital expenditure, there is even more divergence between different authorities than in their procedure on

[1] Abel-Smith, B, and Titmuss, R. M., *The Cost of the National Health Service* (1956), p. 55.

the Rate Estimates. It is first necessary to distinguish the formal budgets regularly presented to the committees and the council from the informal budgets which the treasurer may draw up for his own use. The formal budgets may be either annual budgets, commonly known as Capital Estimates, or long-term budgets, often referred to as Capital Programmes. In practice annual budgets are by far the more common. In Scotland and in the London County Council they are not merely a self-imposed procedure but a statutory obligation. For other local authorities in England and Wales there are no statutory or ministerial requirements. A survey by the Institute of Municipal Treasurers and Accountants in 1955 found that out of fifty authorities in England and Wales, twenty-six had formal annual capital expenditure budgets; three-quarters of the counties and county boroughs used them, but only one in six of the county districts. Long-term capital expenditure budgets were very much rarer, being used by only fifteen of the fifty-six authorities examined in England, Wales and Scotland. Of these only four prepared them annually and the remainder only occasionally.[1]

Where there are no formal capital expenditure budgets of this kind, some informal annual budget is invariably needed. At the least there must be a forecast of borrowing requirements for the year ahead in order to know how much to allow for loan charges in the Rate Estimates. The informal budget may be built up from detailed estimates of the incidence of expenditure on particular schemes. But it is often no more than a broad assessment by the treasurer in the light of past experience, with special allowance for exceptionally large schemes likely to disturb the regular trend. Even where there is a formal capital expenditure budget, a separate informal budget is sometimes drawn up for estimating loan charges. This is usually because a budget prepared centrally has been found more accurate than the total of the separate committees' estimates, which are frequently over-optimistic in reckoning how much can be accomplished in the year.

One of the main reasons for capital expenditure budgets in

[1] *Local Authority Borrowing*, 1957, pp. 22-26.

other public authorities is to comply with ministerial or parliamentary controls which restrict the total amount spent for capital purposes. This motive for a budget is absent in local authorities, as the government relies on loan sanctions for individual projects to regulate their capital investment. For any capital project to be financed by borrowing, the council must apply for a loan sanction to the appropriate government department. Loan sanctions are granted by the Ministry of Housing and Local Government, as the department generally responsible for supervising local authority borrowing, on the recommendation of the appropriate government department for the scheme in question. Every capital project to be financed by borrowing requires a 'loan sanction' from the appropriate government department. This fixes the amount which may be borrowed and the period within which it must be repaid but does not specify the years in which the expenditure should be incurred. Since World War II government policy as to loan sanctions has generally kept local authorities' capital investment below what they themselves wished and thought they could afford to spend, and below what they could raise the money to finance. They have therefore felt no immediate need of capital expenditure budgets to assist in limiting their capital investment or in keeping it in line with the supply of money available to finance it.

The authorities who use capital expenditure budgets have nevertheless found them of assistance in several ways: (1) they assist planning by making committees set out their investment proposals as a co-ordinated programme instead of putting them forward piecemeal as the needs become apparent; (2) they enable the finance committee and the council to consider the financial implications of proposed schemes at an early stage, and to reject any that would be clearly unjustifiable before the spending department has gone to the trouble of drawing up more specific plans; (3) they assist the council in working out priorities between different kinds of capital work, and so developing criteria against which to examine individual schemes put forward for approval; (4) they encourage the council and individual committees to make a regular review of progress

in their capital work; (5) they supply information on running costs and loan charges for the Rate Estimates, and on financial requirements for guidance in arranging borrowing; (6) they provide a means of bringing plans into line with the available manpower, planning staff or supplies where these, rather than loan sanctions, are the immediate limiting factor.

Only one of these benefits—the fifth—can be gained by an informal budget. All the rest require a formal budget to be considered by committees, the finance committee and the council. Nor can they depend on reviewing schemes as budget proposals before they are specifically authorized. Only with a long-term budget will this be possible for any but the smallest schemes.

In recent years, however, there has been a decline in the use of long-term budgets by local authorities. Many were prepared at government request shortly after World War II, but they often proved far in excess of what was attained. Government restrictions on the volume and directions of their capital investment have kept this below what they would otherwise have wished to spend, and at times have involved requests to cut down or increase their expenditure at short notice in the interests of national economic policy or, in the case of grant-aided capital investment, to enable the department concerned to keep to its own Estimates for the year. This appears to have created a widespread scepticism among local authorities as to the possibility of producing estimates of any value for more than a year ahead. Their inclination to long-term budgeting was further damaged by their being asked in several post-war years for programmes of works that could be expedited if needed to create employment—an eventuality which seemed highly unlikely in the climate of inflation then prevailing. Some councils may also have been misled by hoping to attain as high a degree of accuracy in long-term estimates as in the annual Rate Estimates. For the more distant future, broader approximations are usually all that is possible or necessary for planning purposes. The important thing is to insist on regular revision of the estimates. The long-term budget needs to be thoroughly

revised at least once a year, when estimates for a further year can be added and those for the intervening years amended where necessary in the light of current expectations.

The period to be covered in a long-term budget has to be decided after weighing the time required for planning the largest schemes against the difficulty of making reliable estimates for several years ahead. Three-year or five-year budgets appear to be the most common. The I.M.T.A. study group in 1957 recommended five years as the minimum desirable for effective planning in a period of economic stability, but three years as the most that could be reviewed with any degree of realism in the conditions of frequently changing government policy and economic circumstances then prevailing.

Long-term budgets are usually dealt with at a different time of year from the annual revenue budget. Annual capital expenditure budgets, however, are more often presented to committees and the council at the same time as the Rate Estimates. This allows every aspect of local finances to be considered at the same set of meetings, and the Capital Estimates are available as a check on the Rate Estimates for loan charges and running costs of new developments. Where both are presented concurrently however, attention usually concentrates on the Rate Estimates. Capital items are often passed over with little or no discussion in the knowledge that they have been or will be examined in more detail when put forward for authorization. If the capital items are considered before the revenue budget, this helps to ensure that they are examined more thoroughly and as an integrated programme rather than a series of separate appendices to the Rate Estimates of the various committees. It also simplifies the preparation of the Rate Estimates, because estimates for loan charges can be founded on an agreed capital budget and the rush of work inevitably involved in producing the revenue budget is not further augmented by having to draw up estimates of capital expenditure at the same time.

The Form and Contents of the Budgets

The form and contents of a capital expenditure budget, whether

long-term or annual, can do much to aid or hamper its use for reviewing plans and progress. Schemes already authorized can be distinguished from those as yet merely contemplated by committees. This helps to show how far the estimates are firm commitments and what scope there is for adjusting plans by altering the budget. Three separate groups of schemes should be considered; those authorized by the council and sanctioned by the appropriate government departments; those authorized by the council but not yet sanctioned by the department; and those neither authorized nor sanctioned. Sometimes all three groups are distinguished, for example by printing the estimates in three separate columns. In other cases schemes not yet authorized by the council are marked with an asterisk, but there is nothing to indicate which of the authorized schemes have received a loan sanction.

The budget can also be arranged to show progress in carrying out work already in hand. A long-term budget is bound to show the estimated annual expenditure or payments for a number of years, and very often states the total estimated cost and expenditure to date as well. Some annual budgets, however, contain only estimates for the coming year and give no indication of the total cost of the project, the amount already spent or what further expenditure may be required to complete it in subsequent years. To be the starting point for an annual review of progress, a more informative document is required. One county council has tried to meet this need by an annual budget which shows in parallel columns, for each scheme and in total for each service and committee:

(1) Details: i.e. committee, expenditure headings and scheme.
(2) Estimated Gross Cost.
(3) Payments: to end of previous year (actual).
(4) Payments: in current year (probable).
(5) Payments: Estimate for coming year.
(6) Payments: after end of coming year (balance of estimated gross cost).

The 'Estimate' column is printed in bolder type than the rest,

and any schemes not yet approved by the council are marked with an asterisk.

Some capital budgets also include estimates of the effects on revenue of each capital scheme, expressed in terms of the additional rate in the pound. Sometimes the budget merely shows the effects of loan charges on the proposed capital outlay; sometimes the full net effect on revenue, including any additions to or savings in annual running costs. This information appeared in approximately one-third of the annual budgets examined in the I.M.T.A. survey. It is probably more common in long-term budgets, where it could be of more use in making a preliminary economic appraisal of projects not yet authorized.

Although local authorities' main accounts have to be on an income and expenditure basis, a few prepare capital expenditure budgets on a payments basis. They have preferred this because they have found payments more easy to estimate than accrued expenditure, and because the actual payments during the year determine the amount of finance required. A capital payments budget can thus be the foundation for the finance budget. It is not, however, a reflection of the actual work to be done in the year in question, so it is not so reliable a basis for reviewing progress to date or plans, prospects and priorities for the future.

Another important point that may be dealt with in the capital expenditure budget is the method of financing. Items to be financed from a Capital Fund built up out of revenue may be shown separately from the main bulk of capital expenditure to be financed from loan. Capital expenditure to be financed directly out of current income does not normally appear in a local authority's capital expenditure budget. The amount available for this purpose and the items on which it should be spent are decided in settling the annual Rate Estimates, where it figures as 'capital expenditure charged to revenue'. This means that there will be no comprehensive budget including all expenditure of a capital nature. Some authorities, however, vote an annual lump sum from revenue towards meeting capital expenditure. In this case the items so financed

would appear in the capital expenditure budget, but this would still exclude smaller capital items directly 'charged to revenue'.

Some authorities avoid this difficulty by preparing a special statement of all estimated capital expenditure, including work to be charged to revenue. One urban district makes an annual review of all 'special works' covering not only capital items financed from borrowing but also capital work charged to revenue or to the repairs and renewals fund. Schedules of all 'special works' in progress or proposed for the coming year are considered by spending committees and by the finance committee before the annual Rate Estimates. The committees review progress on existing schemes, decide how much new work can be started with the labour and other resources available, select and settle priorities among the suggested schemes, and determine whether new projects should be financed from loan or from revenue or special funds. Thus a schedule of special works for each committee is agreed with the finance committee, and used to calculate the provisions for loan charges and capital items charged to revenue to be included in the Rate Estimates.

Under the Standing Orders of the London County Council, all capital expenditure on items costing over £5,000 must be included in the annual capital budget. The finance committee then decide what portion of this shall be financed from revenue. The amount to be so financed may not be less than £250,000, but is usually considerably more and has reached as high as £2½ million. Isolated capital items costing less than £5,000 are not included in this figure as they are automatically treated as revenue charges and never appear in the capital budget.

Finance Budgets

Local authorities cannot rely upon the Exchequer to finance their approved capital expenditure. The government issues loan sanctions for their capital projects, but leaves the councils to find the money to pay for them. Hence they need finance budgets to forecast the amount of new money required and plan how to raise it from the various sources of borrowing available.

Borrowing requirements depend on when outstanding loans

are due for repayment and on payments in respect of new capital expenditure. If there is a formal capital expenditure budget, it may be used as a basis for the finance budget, although the estimates must first be converted from an expenditure to a payments basis. Many authorities also find that their actual capital expenditure tends to be substantially less than the total of the separate committees' estimates. Allowance must be made for this in the finance budget in order to avoid borrowing more than is necessary. Where there is no formal capital expenditure budget, broad estimates of capital expenditure have to be made specially for the finance budget. The usual practice is to make special calculations for any outstandingly large scheme and otherwise to assume that the overall trend of capital expenditure in the past will be continued.

Methods of financing depend first of all on how much is likely to be available from internal sources—that is, what can be borrowed from surplus balances in funds held by the authority for superannuation or other special purposes. The balance will have to be met by borrowing from external sources, chiefly through mortgages or stock issues. There may also be some short-term borrowing by bank overdrafts or deposit receipts, especially if long-term money is scarce or to avoid long-term borrowing at high interest rates where these are shortly expected to fall. Since World War II the choice between alternative sources of borrowing has been greatly affected by government policy. From 1945 to 1952 the rule was that, with certain minor exceptions, local authorities could borrow only from the Public Works Loan Board. In 1952 they were given the choice of borrowing from the Board or on the open market. In 1955, the Board was reduced to the position of 'lender of last resort' and would only lend to those authorities who could satisfy it that they would not be able to raise a loan elsewhere. Some large authorities have since 1955 raised considerable sums through stock issues, but these too have been subject to government controls as to their size and timing. Otherwise mortgages have been the main source of local authority borrowing since 1955.

Despite these restrictions on borrowing, local authorities

have not felt the shortage of capital money to be in itself a sufficient reason to curtail their capital expenditure. Once projects are authorized, the council assume that the money can be found. That this had so far remained true, even in a period of tight credit restriction, was emphasized in an address by the late County Treasurer of Middlesex in 1958:

> 'As to the matter of possible difficulty in raising the requisite amounts of capital money, the general attitude of local authorities appears to be—and I make no complaint on this score—that the treasurer will find the money. And to give him his due he has, so far as I know, always managed to do so!'[1]

The finance budget is thus a reflection of, not a limitation on, the capital expenditure budget. Its function is not to regulate the volume of capital expenditure, but to provide a forecast of the amount of money required and a plan for raising it at the lowest possible cost.

Finance budgets, unlike the Rate Estimates or formal capital expenditure budgets, do not have to be presented to the council for approval at stipulated times. Forecasts of borrowing are sometimes supplied to the finance committee or one of their sub-committees at fairly regular intervals, and the council themselves will require such information when they are considering the authorization of a new stock issue, new terms for mortgages or other major changes in borrowing policy. For the most part, however, the treasurer is left to find the necessary money in the cheapest way, within the limits of the policies laid down, using whatever finance budgets he finds most helpful. Sometimes there is no very regular system, budgets being prepared at varying intervals and in different forms according to the specific issues under discussion. Other treasurers supplement these *ad hoc* estimates with regular finance budgets. There may be a long-term budget showing each year's requirements for several years ahead, and a more detailed budget for a shorter period, say six months or a year, in which a greater degree of accuracy is sought. This more

[1] Atkinson, W. O., *Annual Conference of the Institute of Municipal Treasurers and Accountants, 1958, Presidential Address*. para. 6.

systematic finance budgeting has been found beneficial in ensuring that capital needs are reviewed sufficiently well in advance to allow them to be met at the least possible cost, without either holding unnecessarily large idle balances or being forced to have recourse to temporary borrowing to meet unexpected deficiencies when long-term money would have been less expensive.

THE NATIONALIZED INDUSTRIES

All the main nationalized industries have embarked on large programmes of capital development. The National Coal Board plans to spend £1,000 million on capital investment between 1956 and 1965. The British Transport Commission's scheme for the modernization and re-equipment of British Railways is estimated to cost £1,500 million between 1955 and 1970. In 1954 the electricity supply industry announced plans for spending £1,421 million on capital account between 1953 and 1960, and the gas boards proposed to spend £346 million over the same period. After the announcement of a nuclear power programme in 1956, the estimate for the electricity supply industry was raised to £3,350 million for the period 1956–66.

With these enormous outlays in prospect, much attention has been given to the development of budgets to assist in planning and controlling capital investment. A certain amount of both long-term and annual budgeting has always been obligatory for purposes of ministerial and parliamentary control. Most of this, however, has been in line with what the boards would have needed for internal management. While the framework of external controls has been similar for each board, they have been free to evolve distinctive methods of budgeting to suit the circumstances of each industry.

Parliamentary Control through Finance Budgets

Parliament has delegated to the appropriate ministers the power to approve the capital expenditure plans of the nationalized industries. But direct parliamentary control over their capital investment has been formally retained by placing statutory limits on the amount of money they may borrow to

finance it. Maximum borrowing powers for each industry were fixed in the original nationalization statutes and can only be increased by fresh legislation. In 1958 these limits stood at £650 million for the National Coal Board, £600 million for the British Transport Commission, £160 million for British Overseas Airways Corporation, £60 million for British European Airways, £450 million for the gas industry and no less than £1,400 million for electricity supply in England and Wales. There are no separate statutory limits for individual gas and electricity boards, as the Gas Council and the Electricity Council borrow centrally for the whole of their industry. Besides the limits for borrowing by each industry, the Finance Act, 1956, placed a statutory limit on the total sum that the government may advance to the electricity supply, gas, transport and civil aviation industries. This acts as a further parliamentary check on their borrowing so long as, apart from temporary bank loans, they are confined to borrowing from the Exchequer.

Legislation to increase borrowing powers is founded on estimates of the industry's capital expenditure and the extent to which this can be financed from internal resources. When the original limits were fixed there could be only very rough estimates of external borrowing requirements. Once the boards had worked out definite programmes of capital development, however, these have provided the basis of requests for additional borrowing powers. Estimates of capital expenditure, and borrowing requirements for some years ahead are needed to discover when they need to seek new borrowing powers and the magnitude of the increase required. The Minister expects to be provided with these estimates when he is asked to introduce a bill for increased borrowing powers, in order to explain to Parliament how they relate to the industry's development plans. Estimates of the total capital expenditure and borrowing requirements and a brief description of the proposed developments has often been published and presented to Parliament as an 'Explanatory Memorandum' on the bill, and the boards themselves often make this the occasion for publishing a more extensive summary of their plans.

Bills for increased borrowing powers give an opportunity for parliamentary debates on the boards' capital development plans and their progress in carrying them out. Since the proposed borrowing powers are intended to cover every branch of capital development in the industry, the discussion can cover a very wide field and touch on many issues relating to the general policies of the industry or government policy in relation thereto.

The borrowing powers of the nationalized industries have not generally been restricted to any particular period of time. Exceptionally, the National Coal Board were, by the Coal Industry Act, 1956, granted borrowing powers for a period of five years only. The National Coal Board have also since 1957 been subject to a statutory limit on the amount which may be borrowed in any one year without further specific sanction by Parliament. These provisions have been introduced to guarantee that Parliament should have an opportunity to re-examine the Board's capital requirements. For all the nationalized industries, however, the statutory limits on their total borrowing have been such that they have had to apply to Parliament for increases since nationalization. By 1958 the British Transport Commission and the airways corporations had each obtained three increases, the National Coal Board two and the gas and electricity industries one each. This has meant that their capital investment plans have had to come under review by Parliament at intervals of from two to seven years. This is of course in addition to the parliamentary discussions of these matters that do in fact arise in other contexts, notably in debates on the industries' annual reports.

Long-term Capital Expenditure Budgets

The Coal Industry Nationalization Act lays down that 'in framing programmes of reorganization or development involving substantial outlay on capital account, the Board shall act on lines settled from time to time with the approval of the Minister'.[1] Similar obligations were laid upon the transport, gas, electricity and civil aviation industries. The form and

[1] S. 3(2).

frequency of these long-term capital expenditure budgets has been varied to suit the circumstances of each industry.

The National Coal Board has produced two comprehensive 'National Plans'. Summaries of these were published under the titles *The Plan for Coal* in 1950 and *Investing in Coal* in 1956. Both were founded on detailed surveys of prospects for ten to fifteen years ahead, including output, manpower, productivity and capital expenditure, scheme by scheme, for each year of the Plan. The largest part of the expenditure is for new sinkings and reconstructions of pits to offset the natural loss of mining capacity, and most of the remainder for mechanization schemes to improve productivity. Areas were asked for detailed plans and estimates for capital developments at individual collieries, having regard to local conditions and technical possibilities. These were collated, reviewed and modified where necessary to produce a National Plan for satisfying consumer requirements at the lowest possible cost. Once this had been approved by the Board and agreed with the Minister, it became the master-plan within which proposals for individual schemes are formulated and a yardstick against which the Board can review their progress in maintaining and improving their productive capacity.

A similar master-plan has been drawn up for *The Modernization and Re-equipment of British Railways*. Here the British Transport Commission set out the general pattern of reorganization and capital development for the period 1955–70. Schemes for electrifying main lines, introducing diesel trains and improved rolling stock and so on are now being worked out as instalments in the execution of the general plan.

In 1954 the gas and electricity supply industries both published summaries of their development plans and proposed capital expenditure for the next seven years under the titles *Fuel for the Nation* and *Power and Prosperity*; a similar revised summary for electricity supply—*Power for the Future*—was published in 1958. All these, however, were prepared primarily to support their requests for additional borrowing powers and not as the board's own planning exercise. They were derived chiefly from estimates of the incidence of expenditure

on major schemes already planned and broad forecasts of other capital expenditure.

The gas and electricity area boards have found it difficult to draw up comprehensive long-term capital expenditure budgets with any degree of precision. Some major projects such as gas works or gas grids have of necessity to be planned several years before coming into service. But in retail distribution much depends on new housing and industrial developments which are usually known only months rather than years ahead. The need to connect these potential new consumers without delay leads to unpredictable fluctuations in the manpower and other resources required for work on system reinforcement and standardization, which would otherwise lend itself to long-term planning. Thus while broad forecasts of distribution expenditure for several years are included in the industries' published plans, there are no all-embracing long-term budgets in the same detail as the *Plan for Coal* or the *Railway Modernization Scheme*. Such once-and-for-all plans would in any case be inappropriate for growing industries like electricity supply whose continuing expansion makes it virtually impossible to produce a plan that would bring development to finality.

The special importance attached to rural electrification has nevertheless led to the adoption of special ten-year rural electrification programmes by all the area electricity boards. In 1953, they announced their intention to spend £130 million for the purpose of connecting 85 per cent of all farms and a higher proportion of all other rural premises by 1963. The actual properties to be connected and the amount of work to be done in each year are settled by each area board when drawing up their annual capital expenditure budget.

Separate long-term budgets for different branches of capital investment have been especially prominent on the generation side of the electricity supply industry. Over four-fifths of all the Generating Board's capital expenditure is on new generating plant. There is an elaborate system of long-term Plant Programmes stating the amount of new generating capacity to be brought into commission each year, the stations where it will be provided, and the estimated total cost. The Plant

Programmes are founded on long-term estimates of the future demand for electricity, prepared independently by the area boards and the Electricity Council and compared with estimates made by the Generating Board themselves. A compromise set of Load Estimates is ultimately adopted for the purpose of planning the Plant Programme.

The next stage is to decide how much new generating plant will be needed and the size and location of the proposed new power stations and extensions. Possible sites for new stations and their relative operating costs are examined with a view to meeting the estimated demand at the least possible cost. The first *Tentative* Plant Programme, based on the Load Estimates for eight years ahead, is drawn up and approved by the Board seven years before the plant is due to come into commission. In each of the following two years, the Programme is revised in the light of later Load Estimates and estimated costs, and again approved by the Board—as a *Provisional* Programme in the sixth year, and as the *Final* Programme in the fifth year before commissioning. The intervening five years are needed for detailed planning, ordering and construction before the plant is ready to come into service.

The financial implications of these Plant Programmes and the Generating Board's other capital schemes are reflected in the Capital Investment Estimates. These are prepared annually, usually for five years ahead, and form a long-term budget of all the Board's capital expenditure, including buildings, vehicles and other miscellaneous and minor outlays. Besides their value for the Board's own planning, they are also needed for the government's annual review of capital investment in the nationalized industries.

Annual Reviews of Capital Investment

Ministerial agreement in principle to the long-term capital budgets of a nationalized industry does not confer definite authority to spend. There is a further control on a year-to-year basis as part of the government's annual review of capital investment in the public sector. The Boards have to submit estimates of their capital expenditure and its financing for the

next two years, together with broader forecasts of capital expenditure for a further three to five years. After discussions with the Treasury and in the Cabinet, the minister tells each industry how much it may spend on capital investment in the year immediately ahead. This figure may be equal to or less than the budget submitted, depending on the resources that the government consider can be spared for investment in that sector of the economy. Where the authorization is less than the budget, the industry may be asked to submit a revised budget consistent with the allocation for approval by the Ministry. Since 1958 the boards have also been given a provisional allocation for the second year ahead, but this remains subject to revision in the next annual review.

The budgets submitted for the annual review include estimates of both capital expenditure and its financing. Broad estimates of the overall return on proposed capital investment may also be required. The review is regarded by the government as 'a basis of Ministerial control over the raising of capital finance by the Boards'.[1] The government does not directly specify the amount which the industry may borrow during the year, but exerts its control indirectly by limiting their capital expenditure. This, however, is only approved after examining the related estimates of its financing. Departures from the pattern of borrowing envisaged are then inquired into by the government with a view to taking any remedial action necessary. The statutory limit on total Exchequer advances to all nationalized industries, excluding the National Coal Board, compels the government to obtain careful estimates of borrowing and to keep a close check on advances as the year proceeds.

The annual review compels each nationalized industry to re-examine its investment plans and prospects in order to supply the minister with an up-to-date budget and to decide where any cuts requested by the government should fall. In the National Coal Board estimates prepared locally are assembled and reviewed before being submitted for Board

[1] *Capital Investment in the Coal, Gas and Electricity Industries*, Cmnd. 132/1957 para. 1.

approval. The Board's investment proposals are considered at a series of meetings between representatives of the Ministry, the Treasury and the Board. These discussions are not concerned with the technical merits of individual schemes but with the overall economic aspects of the Board's proposals. Investment is considered in relation to the estimated return on capital, compared with that achieved in the past years and by coal mining undertakings abroad. The estimated yield on individual projects was not originally stated in the annual returns, but the Board have now agreed to supply this information for any major schemes where the expected return is exceptionally low. This was recommended by the Select Committee on Nationalized Industries (Reports and Accounts) in 1958 in order to enable the Ministry, through the annual review, to examine the individual justifications for schemes with the lowest yields, and thus to 'make a greater financial check on the anticipated financial return on money they lend than they do at present'.[1]

The Minister has sometimes agreed to the amount of capital investment proposed by the Board. In 1958, however, not only was their initial allocation less than they proposed but it was further reduced—from £110 to £100 million—shortly after the beginning of their financial year. When their allocation is settled, the Board make an allotment for capital investment to each Division, taking into account their long-term capital needs, the returns expected on reconstruction projects, and the extent to which they are committed by long-term contracts or schemes already in hand.

The electricity supply industry has at times been asked for substantial cuts in its annual capital expenditure budgets. That for 1956–57 was reduced by over 8 per cent in response to government requests—first from £213 million to £204 million and then again to £195 million—before the lower figure was finally approved by the Minister.[2] The government

[1] *Report from the Select Committee on Nationalized Industries (Reports and Accounts), 1957-58*, H.C. 187, paras. 22, 26-33.

[2] Central Electricity Authority, *Annual Report and Accounts, 1955-56*, H.C. 1956-57 (1)/367, para. 55.

make a single allocation for the whole of the electricity supply industry. The Electricity Council are left to divide this between the Generating Board and the area boards, although the Ministry do not expect them to depart materially from the proportions in the programme on which the total allocation was fixed. The Electricity Council compile the overall Capital Investment Estimates for the Ministry. The boards supply the Council with more detailed budgets of their capital expenditure and its financing for the coming year, and a broader estimate of total capital expenditure for a further six years.

The Generating Board themselves have a special system of annual budgets for their own internal control of capital expenditure. The three Project Groups concerned with generation construction schemes have to prepare an annual capital budget showing their estimated expenditure during the year on (i) new power stations and extensions, on a station-by-station basis; (ii) miscellaneous capital schemes, and (iii) salaries and wages, etc., chargeable to capital. Similarly, the Generation Divisions each have to prepare and submit through the Regional Executive Committee a capital budget showing (i) transmission schemes; (ii) miscellaneous Capital Schemes, and (iii) salaries, wages, etc., chargeable to capital. The Board approve the budgeted expenditure on the smaller projects which do not fall to be specifically approved by them—that is, any Regional schemes costing less than £50,000 (operational) or £10,000 (non-operational). Expenditure on the other, larger projects is not formally authorized on the annual budget, but noted by the Board as an indication of progress on projects which they have already approved or which fall to be approved by them individually. When cuts in capital expenditure have to be sought they are secured wherever possible by withholding approval to new schemes of a less urgent character. It has sometimes been necessary, however, to ask all concerned to review their Capital Budgets with the object of securing a reduction of a given amount. This may necessitate deferment of schemes already approved or, in an extreme case, slowing down work actually in progress. The Board take the view that long-term capital expenditure is not fully susceptible to revision on an

annual review. They are, however, developing their management techniques with a view to preparing master programmes relating annual expenditure to physical progress, so as to secure control over annual as well as total expenditure on capital schemes.

Area gas boards have always received individual capital investment allocations from the Ministry, although the chairmen of the twelve boards confer together in the Gas Council to co-ordinate their plans and priorities and discuss how far each board should bear any cuts that the Minister may impose. Each board's annual capital budget is presented to the Ministry and to the Gas Council in the autumn of the preceding year. The Secretary and Chief Accountant of the Gas Council visit each area to examine the board's proposals on the spot, prior to their consideration by the Gas Council. Each board chairman has separate consultations with the Ministry, when some reductions in his budgeted expenditure have often been asked. The Ministry has also been known to ask the Gas Council jointly to make a further cut in the total capital investment for the industry. In this case, the Council have negotiated a final figure with the Ministry and agreed among themselves what reductions should be made by each Board. Each Board's total budget, as finally revised, is approved by the Ministry as their authorized allocation for the year.

In the airways corporations, the purchases of aircraft account for over 90 per cent of the corporations' total capital expenditure and these, therefore, substantially determine the volume of capital investment. Such purchase contracts require prior approval of the Minister. They ordinarily specify the making of a series of progress payments running normally through the period—which may amount to several years—between the date of signing the contract and the date of delivery of the aircraft. These consequently predetermine the bulk of the capital expenditure arising year by year. Capital expenditure on projects other than the purchase of aircraft, which is not predetermined as to incidence and amount as with the aircraft projects, accordingly accounts for only a small part of the annual capital expenditure. The government nevertheless rations capital

investment through annual allocations, which take account of the firm aircraft commitments and the proposed capital expenditure on other projects. The Ministry also ask the corporations for 'Funding Estimates' as a guide to their capital expenditure and borrowing requirements for two or three years ahead, and these are used to set definite limits on their capital expenditure.

For their own internal use, British Overseas Airways Corporation make an annual Capital Forecast, in detail for a year ahead and in outline for a further two years. Unlike the capital budgets of the other nationalized industries, this does not deal with expenditure to be incurred during the year but with the total cost of capital projects to be authorized during the year. This assists the Corporation, in preparing estimates, to see to what extent and how far ahead their statutory borrowing powers are committed. This may lead them to decide to apply for increased borrowing powers or to restrain new authorizations. The latter process is assisted by the searching scrutiny given to all proposals for capital schemes other than aircraft purchases before the Capital Forecast is agreed. The general pattern of development is brought under review by a panel of chief officers and many proposals are deleted or amended in the light of their aggregate demands on available funds and resources. Approval for inclusion in the annual Forecast does not guarantee subsequent authorization, but schemes deleted at Forecast time have very little hope of being authorized during the year. For the smaller capital items, therefore, the Capital Forecast provides an integrated framework for detailed planning by departments, and saves them from formulating detailed proposals for schemes out of harmony with the broader interests of the Corporation.

CONCLUSION

(1) Long-term capital expenditure budgets, for several years ahead, are necessary to provide a framework within which individual schemes can be planned, authorized and put in hand. More detailed annual budgets are needed for making marginal adjustments in spending plans and setting standards with which

to compare the actual results.

(2) All budgeting for capital expenditure involves the same kind of two-way traffic as preparing a revenue budget.

(3) Long-term budgeting calls for (*a*) provisional indications of the money or other resources likely to be available for capital investment for as far ahead as any capital schemes need to be planned; (*b*) regular revision of the estimated total cost of each project and the estimated incidence of expenditure in each accounting period, to maintain the greatest possible accuracy; this demands special attention in a capital expenditure budget because capital expenditure is often more difficult to forecast than income or expenditure on revenue account, many items of which are of a recurrent character.

CHAPTER IX

WORKING TO A CAPITAL EXPENDITURE BUDGET

ONCE capital budgets have been prepared and adopted, it is necessary to see that expenditure conforms to the estimates or, if these prove inappropriate, that the budget is revised accordingly. This involves checking new projects with the budget before they are authorized, and comparing actual expenditure with the budget provisions. This chapter describes how these processes are carried out, and how they assist in appraising individual projects, in working to a fixed budget, and in improving the accuracy of future budgets and estimates.

Appraisal of Individual Projects

Approval of the budget is not in itself sufficient authority to incur capital expenditure without a specific authorization for each project from the governing body or some committee or officer with delegated powers to act on their behalf. There are usually elaborate rules as to who may authorize expenditure, for what purposes and within what limits, and what plans and statements must be submitted to enable them to satisfy themselves as to the technical and economic justification of each scheme.

The appraisal of projects before authorization is made both simpler and more thorough if they can be considered as part of an approved budget of capital expenditure.

Projects will already have been considered in outline at the budget stage. Any proposal that appeared clearly unacceptable would then have been rejected, leaving only schemes with a good chance of being approved to go on to detailed planning. Applications for specific approval may be asked to state how the scheme relates to the budget and to explain any changes in

the plans or estimated costs. Attention can then concentrate on the variations, in order to decide whether these are sufficient to justify altering or not proceeding with what was approved in principle as part of the budget. Higher management can often divest themselves of much detailed work without impairing their control by delegating powers to authorize projects provided for in the budget, but insisting that unbudgeted items or overspendings of budget subheads should not be allowed without their personal sanction.

A budget also makes it easier to appraise a new project not merely on its own technical merits, but in relation to all the possible alternatives. In a non-trading authority, this is normally a matter of deciding whether it constitutes the most urgent or desirable of all the claims on the limited funds available for capital development. In a trading undertaking, the main criterion is usually the estimated return on the capital employed. Often there is an agreed rate of return below which no project will normally be considered. This does not, however, eliminate the need to look at the relative yield on schemes which satisfy this test in order to decide priorities between them. Very often, too, it is necessary to undertake some unremunerative capital investment, and this must be considered in relation to the expected return on other projects to ensure that the average yield on capital investment does not fall below what is agreed to be economically sound. Thus area electricity boards have to offset any prospective losses on investment in rural electrification, where the costs are not fully offset by consumers' contributions, against gains from developments in urban areas. The National Coal Board have to aim at a minimum average return on capital, allowing for wide variations between Divisions, Areas and collieries according to local conditions.

In both trading and non-trading organizations moreover, it is necessary to see that authorizations form a properly coordinated programme of work. They must not make excessive demands on some kinds of plant or labour while leaving others idle. The aggregate demand for scarce types of plant or manpower must not be allowed to exceed what is likely to be available; direct labour and machinery belonging to the

authority should not be left idle; and the inconvenience to the public must be minimized. Road works on alternative routes between the same places cannot be carried out simultaneously.

The importance of appraising projects in relation to a long-term capital expenditure budget has been emphasized in the National Coal Board. Their memorandum of procedure states that 'All projects for the reconstruction of existing undertakings and for new works are considered within the general framework of the National Plan'. The information to be submitted when seeking Board approval of a project must include—

> 'the relationship and reconciliation of the scheme with the National Plan. Differences between the project and the National Plan estimates of capital expenditure must be broadly apportioned between under/overestimates and omissions, technical changes and price rises'.

Schemes are to be compared not merely with the National Plan itself but with more detailed plans worked out for each Division and Area either as the basis for or the programme of action within the National Plan:

> 'For colliery projects, for example, these Divisional and Area plans should also set out the order of priority of projects in relation to the types of coal required, the availability of manpower, financial return, etc. Although the Divisional and Area plans will be comprehended in the National Plan and, as such, be approved by Headquarters they should be available for reference by Headquarters when necessary in order to provide the background against which individual projects can be judged.'

The above applies only to the projects over £250,000, which require Board approval, but Divisions and Areas are expected to follow the same principles in approving smaller schemes within their delegated powers.

Large capital projects can only be properly appraised in relation to a long-term budget. An annual budget is of little use for this purpose when schemes have to be authorized some years before completion. It can only be used effectively in

considering new projects likely to be completed in the year of authorization. Where a high proportion of capital work comes into this category, as in many hospital boards and in the distribution side of electricity supply, the annual budget can serve to ensure that projects are not authorized without regard to their intrinsic merits. The essential point is that capital expenditure budgets cannot assist in the appraisal of projects before authorization unless they extend far enough ahead for all projects to have appeared in a budget before specific approvals are sought.

Keeping to a Fixed Budget

Government departments, the hospital boards and the main nationalized industries have to work to an annual budget which sets a firm ceiling on their capital expenditure. In practice this is usually treated as a minimum as well as a maximum. As it is very often less than they originally proposed to spend or consider desirable in the interest of the service, they try to arrange their capital work so that the budget is neither overspent nor materially underspent by the end of the year. Their aims are (i) to take the fullest possible advantage of the total funds allotted, and (ii) to ensure that the funds allotted are not exceeded.

This system of fixed annual budgets for capital expenditure has aroused much criticism because it may involve departing from the agreed order of priorities and taking a long-term view, not using the available funds and resources to the best advantage. Less urgent schemes may be undertaken solely because they can be speedily executed to use up balances that would otherwise remain unspent at the end of the year, while more desirable schemes which take longer to plan and get under way have to be held over. Conversely, when there is a risk of overspending, schemes already authorized or in progress may have to be held back, reduced in scope or stopped entirely, even though this means adding to the total cost of the job or postponing economies in running costs. The need to keep a close watch on aggregate expenditure may also add to the cost of administration, and cause insufficient importance to be attached

to controlling the total cost of each job, and seeing that there is no undue delay in completing projects once they have been started.

These dangers are inherent in any system of financing or rationing capital expenditure by means of fixed annual budgets which are less than the authority concerned would otherwise have wished to spend. They could not be eliminated without allowing underspent or overspent balances to be carried forward from year to year, in cases where it could be shown that the variation was due to the rate of progress on schemes in the original programme. Such facilities would remove the inducement to sacrifice long-term economic advantages to the short-term objective of using each year's allocation to the full. Although commonly associated with parliamentary control of expenditure on Supply Services, the absence of carry-overs is not an inevitable feature of that system. Parliament regularly votes money for grants-in-aid that are paid over outright to other bodies even if they do not spend what they originally estimated in that financial year. On the other hand, the problems associated with lack of carry-over are not confined to Supply Services. The experience of the Post Office and the nationalized industries shows that the same difficulties arise when capital expenditure is financed from loan, if at the same time the government controls capital investment by fixing the total amount that can be spent in each financial year. Annual rationing of capital investment is not without its benefits, however. It provides an inducement to exercise restraint in proposing capital schemes and to put them forward in a considered order of priority. It imposes a valuable financial discipline on technical personnel in circumstances where no superior authority has the expert knowledge to question many of the assumptions on which their individual projects are founded. It also makes it imperative to establish a system of budgetary control which, once installed, is capable of assisting management in other directions as well.

Budgetary control is essential to see that expenditure keeps within the budget and to avoid *ad hoc* actions which may involve uneconomic practices to avoid underspending. The annual

budget must provide for a co-ordinated programme of work with realistic estimates of the incidence of expenditure on each scheme. This minimizes the risk of having to alter plans during the year to avoid overspending or underspending the budget. There must also be a reserve of work planned, so that new schemes can be brought in during the year in a considered order of priority, if for any reason work covered by the budget is likely to be postponed or abandoned. Finally there must be a close watch on the actual expenditure and new authorizations in order to detect any tendency to overspend or underspend as early as possible and make corresponding adjustments in the schemes to be undertaken.

To keep within a fixed annual budget calls for special checks on proposed new authorizations. Before they are granted the governing body or officers responsible for sanctioning individual projects must satisfy themselves that they are not likely to result in overspending the budget for the year. Regular statements of total authorizations to date are valuable for showing how far the budget is already committed and whether special measures may be needed to hold back or step up new authorizations. One area electricity board, receives a monthly report on authorizations to date, estimated expenditure thereon in the current year, and how much more work can be authorized without overspending. The Ministry of Transport and Civil Aviation pay special attention to new authorizations for capital work on highways. The annual Estimates are derived from the current Road Programme, which includes estimates of the authorizations to be granted in each year as well as the estimated annual payments. New authorizations to date can therefore be compared with the Road Programme, to see whether work is being put in hand as planned, or whether there is any danger of exceeding or materially underspending the total vote for the year. The Ministry's Finance Division has a special section at national headquarters Division to keep a running check on highway authorizations against the Programme and report any marked divergencies. These have seldom arisen, but the procedure ensures that they would not escape unnoticed. The local highway authorities or the Ministry's highway engineers

could then be urged to speed up their commitments or to slow down authorizations as appropriate. In practice, under-commitment has tended to be the greater danger, but in the aggregate variations have remained small in relation to the total estimates. In 1956–57 there was a small overspending on trunk roads and an underspending on classified roads, so that total capital expenditure on new works and major improvements exceeded the Estimates by only £30,000, less than a quarter of 1 per cent of the total of £13½ million provided for capital expenditure in the Ministry's vote for roads in England and Wales.

Besides keeping check on new authorizations, an authority working on a fixed annual budget must watch the progress of actual expenditure. New authorizations must be considered in relation to the most up-to-date estimates of expenditure on work already authorized, allowing for any variation from the original estimates. Periodic statements of expenditure to date are usually produced for this purpose. In government departments they are often part of the comprehensive statements prepared for all subheads, both current and capital. The Ministry of Transport and Civil Aviation use monthly returns of payments to date against the annual Estimate, for each major scheme and for the total annual allocation of each highway authority. The Ministry of Works prepare statements of payments against the budget five times a year, at the end of the third, sixth, seventh, ninth and tenth months. The Post Office prefer to use revised forecasts of out-turn for the year, which for most of their capital expenditure are prepared four times a year, in April, September, November and January. One Regional Hospital Board Treasurer compiles weekly statements of payments, in total and for each scheme, while another uses two-monthly statements showing all accrued expenditure. The National Coal Board call for monthly returns of capital expenditure against the budget for each Division and Area, supplemented by a 'main review' halfway through the year when the estimates for the remaining months are brought up to date and Divisions' total allotments may be revised if this can be done without departing from the Minister's total allocation for the industry. The Central Electricity Generating Board

intend to ask Regions, Divisions and Project Groups for monthly statements of actual capital expenditure on major projects, supplemented twice a year by fully-revised Capital Budgets; the latter are the means of approving revised estimates of capital expenditure on minor projects, and provide information needed to control the Board's total expenditure against the annual capital investment allocation. The Board are also endeavouring to achieve greater control by setting up master-plans relating estimated annual expenditure and physical progress on their capital schemes.

With capital projects, unlike many items of revenue expenditure, there is often no reason to expect expenditure to be evenly distributed over the year. There may be a fairly regular seasonal pattern, especially where a large number of schemes are undertaken, but this is always liable to be upset by unforeseen delays or rapid progress on a few projects. To discover as soon as possible when there has been or is likely to be any material departure from the original budget demands close collaboration between the finance officers, who watch the progress of expenditure, and the architects, engineers and supplies officers in charge of the actual jobs or purchases. The technical departments must be brought in to help in interpreting expenditure statements and to advise which schemes can be brought forward at short notice, or which can be halted or deferred with the least practical difficulty and without adding unduly to their total cost. Any financial or technical development likely to upset the budget should be reported to all concerned as soon as it becomes known, in order that any possible corrective measures can be put into operation with the minimum delay.

Regular reviews of capital expenditure against the budget are also desirable as a check that no significant developments have been overlooked. Special meetings are often arranged for this purpose. In one Regional Hospital Board, for example, the Treasurer, Architect and Engineer meet monthly to review the position on works in the annual programme and to agree which schemes should be deferred, halted or brought into the programme to compensate for any tendency to overspend or underspend.

Ability to detect likely causes of variations is a skill developed by experience in dealing with a particular kind of capital work. Hence the difficulties encountered by the hospital boards and nationalized industries in their earlier years of working to fixed annual budgets can be expected to diminish as they become more practised in the art of estimating the incidence of expenditure and detecting deviations in performance. Already by 1956, the Guillebaud Committee was able to report that the hospital boards had become 'much more skilled in the art of planning a capital programme over a twelve month period'.[1] While the total allocations for capital expenditure rose from £7 million in 1948–49 to £18·5 million in 1957–58, the variations between allocations and actual expenditure have been greatly reduced. In the first three years of the service there were annual underspendings of over £1 million, but since 1951–52 the variations have never exceeded £0·5 million and in two years the out-turn has been almost exactly equal to the allocation.[2] The chief cause of variations in recent years has been the difficulty in the absence of previous experience, of forecasting how long it takes for an expanding programme, including a higher proportion of larger schemes, to get under way.

The nationalized fuel and power industries have also achieved a high measure of success in keeping capital expenditure in line with their annual budgets, as shown by the figures opposite for the financial years beginning in 1956 and 1957.[3] Thus the slight overspendings in the electricity supply industry were more than offset by underspendings by the gas boards and the National Coal Board.

[1] Cmd. 9663/para. 330.

[2] The overspending (+) or underspending (−) in each year has been (£1 million)

1948-49	−1·7	1953-54	Nil
1949-50	−1·5	1954-55	−0·5
1950-51	−1·3	1955-56	+0·1
1951-52	−0·5	1956-57	Nil
1952-53	+0·5	1957-58	+0·2

(*Source Ib.*, para 327 and Ministry of Health).

[3] *Capital Investment in the Coal, Gas and Electricity Industries*, Cmnd. 132/1957 and Cmnd. 415/1958.

		Capital Expenditure in £1 millions		
	Year	*Approved*	*Actual*	*Difference*
National Coal Board	1956	107	96	−11
	1957	107	103	− 4
Electricity Supply, England and Wales	1956–57	195	206	+11
	1957–58	233	240	+ 7
Gas Council and Gas Boards	1956–57	52	51	− 1
	1957–58	59	56	− 3

Local authorities are not under the same compulsion as the other types of public authorities to see that their capital expenditure is neither more nor less than an agreed amount in any given financial year. Once capital projects are authorized by the council and sanctioned by the government, expenditure is normally allowed to proceed provided that the total estimated cost of each job is not exceeded.

Even where the Council approve an annual capital expenditure budget, they do not usually regard it as setting such rigid limits on spending during the year that work is deliberately held back or jobs of lesser priority brought forward simply in order to spend the amount originally estimated in the budget.

Although local authorities' capital expenditure budgets are not a fixed authorization to spend they can be regarded as a yardstick of what expenditure ought to be. While spenders are not expected to amend their plans and priorities simply to keep to their estimates, they can be asked to explain any variations between actual and budgeted results. By no means all the authorities who prepare capital expenditure budgets go on to make these retrospective comparisons of results with the budget. For those who do, however, they provide a check on and a deterrent to bad estimating or undue dilatoriness in the execution of authorized schemes.

These benefits of budgetary control are not of course limited to local authorities, but they deserve special emphasis in the local government field because of the widespread tendency to adopt annual capital expenditure estimates which in the aggregate invariably prove much higher than actual expenditure and are consequently incapable of being used as a basis for the finance budget or a yardstick, along with the estimated

cost of each scheme, for reviewing the actual results. Where spenders are made to regard the budget as firm figures to which they are expected to adhere, this has helped to improve the accuracy of their estimates and thus facilitate the task of estimating financial requirements and loan charges and reduced the temptation to abandon capital budgeting as too unreliable to be worth the effort entailed.

Improving the Accuracy of Future Budgets

Although long-term capital budgets are used mainly as a basis for planning and appraising proposed new authorizations, comparisons of actual results with the budget can also be valuable for achieving greater accuracy in future budgets. They show how far the estimates proved capable of realization, where and why they went wrong, and to what extent to budget on different assumptions in the future.

If the long-term budget is not drawn up afresh at regular intervals, such comparisons show when it has become so unrealistic as to require general revision or replacement. Thus the *Plan for Coal* of 1950 was not regularly revised, but by the end of five years it was found that, as described in *Investing in Coal:*

> 'Experience during the past five years has shown that both the difficulties and the cost of creating a healthy coal industry were much greater than was thought at the time . . . Various minor adjustments were made during the intervening years, but towards the end of 1955 the time had arrived when a full-scale review became necessary. The Board have therefore examined the original Plan in the light of new knowledge gained and now present their revised Plan'.[1]

A new plan was therefore worked out afresh in detail, with important changes in the underlying assumptions as to output, manpower, costs, demand and the rate of technical development possible. In 1958 the Select Committee on Nationalized Industries (Reports and Accounts) urged that more use could still be made of budget comparisons by the National Coal Board to achieve realism in the long-term budget:

[1] *Investing in Coal* (1956), p. 6.

> 'Though the overall plan may be designed to be flexible, it is still the basis on which investment in the industry from year to year is considered. Thus it is important that, in the light of experience, it should be continually re-examined and, where necessary, amended.'[1]

To ensure that this was being done, the Select Committee recommended that an overall comparison of results with the estimates in *Investing in Coal* should appear in each of the Board's annual reports.[2] The Board have agreed to adopt this recommendation.

Comparing results with the estimates can also be helpful in improving the accuracy of future budgets, whether long-term or annual. A persistent problem in many public authorities has been the tendency to overestimate how much capital work can be carried out within a given period. Some allowance for this measure of unrealism has to be made by those allocating funds or using the estimates for policy-making purposes. Comparisons of previous results with the corresponding budget are taken as a guide to how far the new budget ought to be scaled down. Some electricity Generation Divisions, for example, have had large cuts in their Capital Budgets for minor works on the grounds that these had been substantially underspent in the past. Even where Divisions' separate budgets were unchanged, further reductions were often made in the aggregate estimates for the industry in order to allow for unforeseen delays and similar factors for which spending units could not reasonably be expected to estimate individually but which could be fairly accurately forecast for the country as a whole. In the same way, spenders' relative propensities to overestimate in previous years have been taken into account by the Ministry of Works in settling their allocations for different branches of capital work, and by the Ministry of Transport and Civil Aviation in their capital expenditure allocations to local highway authorities. Such adjustments are essential to provide reliable forecasts of total expenditure and to

[1] *Report from the Select Committee on Nationalized Industries (Reports and Accounts), 1957-58*, H.C. 187, para. 49.

[2] *Ib.*, para. 50.

avoid seriously underspending the budget. Similarly, in those local authorities where capital expenditure budgets tend to be approved by the council at a level which in the aggregate substantially exceeds the probable expenditure, allowance for this must be made in the finance budget in order to avoid borrowing more than will actually be needed.

CONCLUSION

(1) Working to a capital expenditure budget involves (*a*) checking proposed new authorizations against the budgets, both long-term and annual, to see that schemes are started as planned; and (*b*) comparing actual results with the budget with a view to investigating and taking action on variations.

(2) Comparisons of actual results with the budget are important for securing accuracy in estimating and ensuring that, once started, schemes are completed with the minimum delay.

(3) The system of rationing public authorities' capital investment by means of annual allocations provides an additional reason for very careful budgeting. Long-term as well as annual budgets are needed, as commitments for major schemes are not readily responsive to annual adjustment or revision. Budgets based on planned programmes of work and rapid reporting of variations are essential to ensure adherence to the allocations without resort to undesirable short-term expedients.

CHAPTER X

THE CASH BUDGET

CASH budgets were defined in Chapter I as 'budgets of cash receipts and disbursements during a period'. In the central government of Great Britain, the main Budget and accounts are drawn up in terms of cash receipts and payments. In other public authorities where the main accounts are on an income-and-expenditure basis, a cash budget is an integral part of the budgetary structure. It is the means of planning, forecasting and keeping check on the balance which will be available at the bank to meet the payments falling due in respect of either revenue or capital transactions. It will show when and to what extent temporary borrowing may be required, or surpluses are likely to be available for temporary investment.

A cash budget is concerned to show the net effect of all receipts and payments. The estimates must be as precise as possible as to their timing. Although they may extend for a year or more ahead, they have to be broken down for relatively short periods, usually monthly or weekly. This is the only way to ensure that a budget showing a satisfactory balance at the end of the period does not obscure the prospect of a temporary shortage of cash at some point within that period.

The table overleaf is an example of the annual cash budget of a nationalized industry. Separate figures are given for every month and for the year as a whole under each of the headings. The last lines in each table must always be the same. For the year as a whole, the cash budget must also link up with the revenue, capital expenditure and finance budgets. Cash requirements will be equal to the difference between payments in respect of capital expenditure and the internal resources—trading surpluses or depreciation provisions—available to finance it, plus or minus any variations in working capital requirements.

I. *Borrowing Requirements during the Month*	
Capital Payments	
Revenue and other Payments	
Total Payments	
minus Revenue Receipts	
Net Outgoings	
plus Borrowing Brought Forward	
Borrowing Carried Forward	
II. *Sources of Borrowing Outstanding at end of Month*	
Minister	
Banks or Other Persons	
Subsidiary Companies	
Total Borrowing Carried Forward (as above)	

In private businesses, the supply of cash is often, in the short run, the decisive limitation on what can be done. Taking a longer view, it is also the basic consideration in deciding to undertake new capital expenditure and engage in further development and expansion or to raise fresh capital. Hence the cash budget is a major instrument for policy-making at the highest level.

In many public authorities the cash budget tends to occupy a less prominent position compared with the other kinds of budget. This is because their expenditure is financed or controlled by higher authorities in ways which seldom make them feel conscious of the supply of cash as a direct limiting factor in their decision-making. In local government and, to a somewhat lesser extent, in the nationalized industries, the cash budgets are generally a reflection rather than a determinant of the revenue and capital expenditure budgets. They are often left largely to the finance officers and not examined at so high a level as the other budgets. They are still essential, however, for a variety of purposes. They help in arranging to have sufficient cash on hand to make payments as they fall due, yet at the same time avoiding the unnecessary expense of holding idle balances larger than are actually required. They thus influence decisions as to temporary borrowing or investments

or as to the timing of receipts or payments where this lies within the discretion of the organization. Where receipts or payments are made in foreign currencies, the cash budget is also important in planning to keep sufficient local currency available in each country and in deciding when to repatriate surplus balances. The following paragraphs describe some of the principal applications of cash budgets in public authorities in Great Britain.

Government Departments

Many departments of the central government have little need for special budgets to plan or keep check on the supply of actual cash, since most payments are made centrally through orders drawn on the Paymaster-General's Account or locally through orders drawn on the Post Office. The chief exception is where payments have to be made locally in cash, notably for pensions, national insurance and family allowances and, on a smaller scale, for wages and salaries of employees at local and regional offices. Local offices then have to supply forecasts of their cash requirements and any local cash receipts, usually at weekly or monthly intervals, in order that the Ministry can arrange to have the cash available as and where it is wanted.

The Hospital Service

Hospital authorities have to submit monthly cash budgets, known as 'cash requisitions', to obtain money to finance the expenditure authorized in their approved Estimates for the year. Regional Hospital Boards and Boards of Governors send the Ministry monthly requisitions showing their estimated payments and receipts in each week of the month ahead, in respect of both capital and running expenses. The Ministry make weekly payments to cover their estimated net requirements for the week ahead. Hospital Management Committees submit similar requisitions to their Regional Board, from whom they receive weekly instalments of cash to meet current payments.

The cash requisitions are also used by the Ministry as a check on whether, even though the boards may be keeping to their

approved income-and-expenditure Estimates, the Ministry's own cash Estimates are in danger of being either overspent or materially underspent. This might happen if payments for stores, changes in cash balances or carried over payments for work done in previous years differed from what was allowed in the cash Estimates. After some years' experience, the departments can usually estimate these items fairly accurately, though there are especial difficulties as regards carried over capital payments. But the monthly cash budgets have sometimes led the Ministry to urge hospital authorities to avoid either any undue accumulation of creditors which could result in cash underspendings, or a building up of cash balances which, besides being uneconomic, could lead to a cash overspending.

Local Authorities

Most local authority treasurers have devised some form of cash budgets to assist them in keeping adequate cash balances and in borrowing or investing money where necessary in accordance with the general policy of the council. Some authorities aim to arrange long-term borrowing so that they can manage without temporary loans. Others make considerable use of short-term money to finance capital expenditure as well as revenue transactions. The extent to which this is done will depend on the comparative cost of long-term and short-term borrowing, the prospects of a rise or fall in interest rates, and the availability of long-term funds. Scottish local authorities have to keep their temporary loans within a statutory limit of 15 per cent of all borrowing other than in anticipation of current revenue. Borrowing to meet temporary deficits on revenue account is more extensive in Scotland than in England and Wales owing to the Scottish practice of not levying rates until some months after the beginning of the financial year.

Cash receipts from rates are normally very unevenly distributed over the year, with heavy inflows following the issue of rate demands at the half-years and a smaller and diminishing flow of arrears afterwards. Nevertheless the seasonal distribution seldom differs much from year to year and can therefore be estimated reliably from past trends. Government grants, the

second main source of revenue, are usually paid in monthly instalments and are easier to estimate because the total sum to be paid is generally known in advance. Apart from a few major capital payments which can usually be isolated without much difficulty, payments tend to be more evenly spread over the year. The largest part is usually for wages and salaries where there are no appreciable carry-overs and the cash estimates can be taken directly from the Rate Estimates. Hence the cash budget will normally show a gradually diminishing balance as the time for new rate demands approaches. Rough estimates of cash receipts and payments are often prepared for six months or a year, together with more frequent cash budgets in greater detail for the month or two immediately ahead. The former give a preliminary indication of whether temporary borrowing may be needed. The latter enable actual cash balances to be compared with the budget at frequent intervals—generally every few days if not daily—to see whether any change in borrowing plans is needed to keep a safe balance in hand.

Subsidiary cash budgets are also needed when cash payments have to be made at outlying offices or institutions. These are especially important among county councils where some of the largest services may be organized through divisional offices who make some payments, notably wages and salaries, directly from local bank accounts. The local office must then submit periodic forecasts of its cash requirements in order that its account can be appropriately replenished.

The Nationalized Industries

The nationalized industries employ cash budgets for internal checks and to let the government know what they will need to borrow from the Exchequer to meet their approved capital requirements and, in the case of the National Coal Board, their temporary borrowing needs as well.

In the National Coal Board all banking arrangements are centralized in a single account at the Bank of England. This is cleared daily by advances from or repayments to the government as required. At weekly intervals the Board supply the Ministry with forecasts of advances and repayments as a guide to their

probable needs. Actual advances and repayments are not fixed in advance but decided from day to day according to the actual balance. The advances required may in the short term be very largely influenced by variations in working capital and in the revenue out-turn for the year. In the long run, of course, they are largely determined by the annual capital expenditure budget approved by the Ministry. Once this is settled, the government assumes responsibility for providing the cash needed.

The other nationalized industries have different responsibilities for controlling their own cash balances. They can obtain Exchequer advances to finance long-term capital expenditure, but for fluctuations in working capital they are expected to arrange temporary borrowing by bank loans and overdrafts. Exchequer advances are obtained through the appropriate minister at regular intervals to meet the applicants' estimated requirements for the ensuing period for capital expenditure and to work within a reasonable margin of the overdraft and loan limits agreed with their bankers. When this method of financing was introduced in 1956, some advances were also made to enable the boards to reduce their temporary borrowings to a level corresponding to their normal short-term needs. Exchequer advances were originally made at monthly intervals. Since 1958 they have been made fortnightly, after the Comptroller and Auditor General had urged that the existing practice be reconsidered in the light of the general principle that no advance of public money should be made until it was actually needed by the recipient.[1]

The gas and electricity supply industries each have centralized banking arrangements. The local accounts of individual boards cannot be overdrawn but are kept in funds by drawing on the central account for the industry. Surplus funds in the local accounts are transferred to the central account to keep overall borrowing requirements to a minimum. The central account can be overdrawn up to a maximum agreed with the

[1] *Finance Act, 1956, Advances to Nationalized Industries and Undertakings (Minister of Power) Account 1956-57*, H.C. 1957-58/109, p. 6.

Finance Act, 1956, Transport (Railways Finances) Act, 1957, Advances to Nationalized Industries and Undertakings (Minister of Transport and Civil Aviation) Account, 1956-57, H.C. 1957-58/110, p. 8.

bank and approved by the government. As this limit approaches, the Gas and Electricity Councils apply for Exchequer advances to cover their industry's long-term capital needs and keep the overdraft commensurate with short-term borrowing requirements. Quarterly cash budgets are submitted to the Ministry of Power in support of their applications for Exchequer advances.

The air corporations likewise have to support their requests for Exchequer advances with a quarterly return of actual or estimated cash requirements for each quarter of the current financial year, supplemented each month by a forecast of payments to be made in the month and funds available from other sources. The British Transport Commission, however, have so far found difficulty in providing regular cash budgets for a full year ahead. They inform the Ministry two months beforehand, of the advances they are likely to need, and then make a formal request for a specific sum a few days before the money is to be paid.[1]

In the airways corporations another important application of cash budgets is in the management of their extensive holdings of foreign currencies. Revenue at overseas stations generally exceeds local expenditure, so the corporations must arrange to repatriate or invest any surplus funds in order to minimize idle balances. In the case of British Overseas Airways Corporation, a somewhat different situation arises in the United States where disbursements of local currency earnings are made not merely to meet local current expenditure but also to meet or assist in meeting U.S. dollar capital payments of appreciable size related to the purchase of American aircraft. To assist in handling these problems, the Corporation keeps separate cash budgets for each overseas station. Stations are required to submit each month cash budgets for the following three four-week periods. Stations in the dollar area and stations whose currency is experiencing special foreign exchange problems have also to supply annual cash budgets for a year ahead and weekly budgets against which actuals are checked. Station budgets are incorporated into a consolidated cash budget for

[1] H.C. 1957-58/110, p. 8.

the whole Corporation. In addition Balance of Payments Forecasts are prepared to show estimated transactions in each currency. The Ministry ask for such forecasts every six months covering the next three half-years, and for a statement each quarter of the actual position for the previous quarter. A daily or weekly check is kept on cash transactions against the cash budgets, and a monthly report is made to the Board summarizing the cash position and borrowing requirements. This report also comments upon such issues as the Balance of Payments Forecasts for 'problem' currencies or Treasury authorizations for dollar payments. The Ministry is informed of the actual cash position in the quarterly balance of payments return and through the actual results quoted in the quarterly cash forecast.

CONCLUSION

The cash budget is an integral part of the budgetary system, linking up with the revenue, capital expenditure and finance budgets whose contents it reflects. In public authorities it sometimes occupies a less prominent role than these other budgets, principally because their method of financing does not make the supply of cash appear as the immediately decisive limitation on what can be done. But the cash budget is nevertheless a vital tool for planning, regulating and keeping check on the supply of money to meet payments as they fall due, without incurring unnecessary expense in holding idle balances.

CHAPTER XI

CONCLUSIONS

BUDGETING is indispensable for efficient administration in any organization. The first part of this chapter summarizes how and why it has a distinctive contribution to make. The second section examines at greater length the points where further developments or more widespread adoption of current practices might enable the potential benefits of budgeting to be more fully realized.

THE PLACE OF BUDGETING IN ADMINISTRATION

The essential character of budgeting is everywhere the same. It consists in setting up statements of future expectations, couched mainly in financial terms, for each part of an organization, and combining these into an integrated master budget for the whole undertaking. But the methods whereby estimates are brought together and reconciled with the decisions of higher authorities are bound to differ from one undertaking to another, on account of the differences in their activities, size and structure and the varying statutory and ministerial requirements with which they have to comply. These considerations necessarily affect the length of time taken to prepare the budget, the number of tiers of authority through which estimates and variation statements have to pass, the form in which they are presented and the type of action to which they are likely to give rise.

In all organizations, however, budgeting can assist management at every level in several ways. In the first place, it helps in making and reviewing policy, by encouraging comprehensive, forward-looking planning and decision-making, and providing both the information and the occasions for regular reviews of plans and prospects for the future. Secondly, it supplies yardsticks against which the actual results can be judged, thus helping to assess their significance and decide what action may

be called for in consequence. A budget can be used in both these ways, whether it relates to income and expenditure on revenue account, capital expenditure, or finance and cash transactions. The budget may have been instituted primarily as (i) a plan of spending, (ii) an authorization to raise revenue or incur expenditure, (iii) a forecast on which to found future policy, or (iv) a yardstick of efficiency. But whatever its original object, it can usually be adapted to serve the other purposes as well.

Some informal budgeting goes on, often almost subconsciously, in even the smallest business and private households. But in large and complex organizations more systematic budgeting is required. There, besides its other benefits, the budget can also be the means of defining the responsibilities of subordinates in broad terms while still enabling their superiors to keep in touch with the main developments. The separate budgets for each part of the organization can be brought together and summarized in a master budget indicating the overall prospects. The master budget can also be broken down to let each responsible individual know what is expected of him. The actual results can then be compared with the budget and any unexpectedly good or bad performance traced back to the persons or circumstances immediately responsible.

Budgeting is especially important among public authorities because of the preponderance of large and highly complex organizations. Few companies approach the size of the larger government departments or nationalized industries. Nor do many companies carry on so many and diverse activities all financed from a single pool of revenue, as is the normal practice not only in the central government but also, despite their much smaller size, among local authorities. Public bodies must also hold themselves accountable to the public through ministers or elected assemblies. This creates an additional use of budgeting as a means of publicizing plans and expectations. Non-trading public authorities have a further reason to lay special stress on budgeting, because many of their activities are less susceptible to other methods of control, such as the profitability tests and standard costing, which commercial under-

takings have often evolved to complement their budgetary control. For all these reasons, budgeting in the public sector presents both special potentialities and special difficulties.

THE SCOPE FOR DEVELOPMENTS

(*a*) *Making the Budget Serve all its Potential Purposes*

To get the full value from a budgetary system, it must be made to serve all its potential purposes. Where it started with a single purpose in view, such as fixing taxes or prices or authorizing expenditure, every effort should be made to put it to other uses as well, making such modifications in the form of the budget or the budgetary procedure as may appear necessary. Budget preparation should become the occasion not merely for determining taxes or prices, but also for a comprehensive review of all proposed activities, considered as part of a co-ordinated programme. Once adopted, the budget ought to remain in constant use for assessing the implications of new developments and proposals as they arise. The budget should also be used to set standards against which to appraise the subsequent performance and so decide where changes in policy may be called for and where to apportion praise or blame for the results achieved.

In seeking to obtain the fullest benefits from budgeting, two main problems have to be surmounted. The first is that of applying budgeting to all its potential uses and not merely to one or two. This arises among local authorities, for example, where many councils still regard the revenue budget as almost exclusively an instrument for fixing the rate and putting a ceiling on expenditure. The question whether the budget or the actual results represent an efficient use of the resources devoted to each service may receive very little attention. There is seldom any regular machinery for reviewing performance against the budget retrospectively, such as the Public Accounts Committee provides in the central government. Local authority trading undertakings, not being financed from the rates, often have no regular budgets at all, even though all the other reasons for a budget are just as much present as in any other service. In

the central government too, the tradition has been to stress the authorization aspect of budgeting. The Estimates and Appropriation Accounts are kept in a form which, while adequate for controlling the authority for payments, does not always make them the most suitable for policy-making, defining individual responsibilities, measuring costs, or setting tand judging standards of efficiency. The development of these latter applications of budgeting has consequently necessitated separate systems of budgetary control within some departments.

The second problem is therefore, where budgets are already being used for several different purposes, to try as far as possible to make the same budget serve for all. Some modifications may be desirable according to the purpose in question at any particular time. Where the budget is being considered as a yardstick of efficiency, for example, it may be convenient to omit certain uncontrollable fixed charges which have to be taken into account when deciding how much revenue is required. Or there may be a fixed budget for settling taxes or prices, while certain parts of the organization are controlled against flexible budgets for different levels of output. But all these variants should be essentially modifications of the same sets of estimates, only grouped and presented somewhat differently. To prepare quite separate budgets for each purpose is bound to mean overlapping and duplication of work, and very likely inconsistencies between the different sets of estimates as well. While it may not be possible immediately to devise a form of budget and budgetary procedure which will serve every purpose with a minimum of duplication, this ideal should always be kept in mind as existing techniques develop and new applications are found. This question is receiving special attention in the coal and electricity supply industries. In the central government, parallel budgets on different bases for authorizing expenditure and for framing policy, measuring costs and apportioning responsibilities, will remain essential while the present form of Estimates and Appropriation Accounts continues. This problem raises some major issues relating to the form of government accounts which will be dealt with more fully in section (*e*) below.

(b) *Identifying Responsibilities in the Budget*

One of the greatest contributions of private industry to the development of budgeting has been to demonstrate the immense benefits to be gained by using the budget to define the responsibilities of individuals, in terms of the results that each is expected to attain. The complete master budget for any organization—public or private—should be so constructed that every part can be identified with the responsibilities of a particular individual. This functional breakdown should extend to the lowest practicable levels of supervision, so that they can know what is expected of them and their superiors have a yardstick for measuring good or bad performance.

Budgets often have to be built up from figures for separate expense items—wages and salaries, materials, depreciation and so on. But the complete budget should nevertheless show the amounts for which individuals in positions of authority are responsible in respect of each of their allotted functions. Having agreed on the total budget for each function, higher management should leave their subordinates to carry out their duties with a minimum of detailed financial supervision. Budgeting can thus both lighten the task of exercising higher control and guard against the feelings of frustration and the deadening of initiative that may arise where there has to be constant reference to higher authorities for financial consents.

Those responsible for any activity should not have a budget imposed upon them from above without prior consultation. They ought to be actively concerned in its preparation from the earliest stage. They will have to be told the broad limits within which to budget, in so far as these depend on expected demand, government policy, physical shortages and other factors outside their control. But they should then be given an opportunity to state what they think their portion of the budget ought to be. This may have to be altered later, after discussion with and by higher authorities, because of unrealism in the original estimates or other competing claims on limited resources. But the figures finally adopted should wherever possible be agreed with those responsible for each function. It is also desirable that controllable and uncontrollable expenditure should be distinguished in the

budgets and variation statements. Thus the person responsible for the budget cannot be called to account for the effects of a national wage award, but he should clearly be asked for an explanation if inefficiency in his existing labour force leads him to engage additional staff.

This decentralization of budgetary responsibility is not of course in any way inconsistent with a centralized accounting system which may be organized to supply management at all levels with accounting data, and with assistance in its interpretation if desired. Greater centralization of accounting is an inevitable corollary of the increasing use of mechanized and electronic equipment which needs a large volume of work to keep it sufficiently occupied to justify the capital outlay. There is, however, no reason why the function of recording and producing financial information for such a system should be performed by different people from those who are responsible for controlling income and expenditure against the budget. It should always be emphasized that such arrangements do not in any way reduce or interfere with each individual's responsibility for the budgets and variation statements for the function committed to his charge.

The specialist finance officer is thus left with a dual role in the budgetary process. As accountant, he has to provide information to every level of management. As financial adviser and critic, he has to see that the financial implications of every new development and proposal are properly understood. He must always be ready to take the initiative in proposing revisions in the estimates or alterations in the budgetary procedure, should his expert training and experience suggest these to be desirable to make the budget and variation statements more effective aids to management. But others should never be allowed to think of the budgetary system as his sole preserve. Those who are in a position to act on the information should be encouraged to say what changes in its form or timing would help to make it of greater practical use.

Chapter IV showed that many public bodies have already gone a long way in decentralizing budgetary responsibility and that some were planning to do so still further, for example

by instituting separate budgets for each department in hospitals and for each of the main processes in an electricity generating station. Progress in this respect, along the lines pioneered by private industry, will inevitably have to be gradual, as time is needed to build up adequate experience for budgeting to yield its full benefits. Much will depend on the development of standards whereby the budget can be related to the underlying non-financial plans and expectations.

(*c*) *Relating the Budget to Non-Financial Plans and Standards*

The budget should always be regarded as the reflection of the underlying non-financial assumptions as to the amount of work to be done and the manpower, materials and other resources needed to perform it. The first essential in budgeting is to see that these basic data have been realistically assessed. Once this has been done, any further discussion of changes in the estimates or variations in performance must distinguish between those involving some alteration in the extent or quality of the service and those brought about by greater or less efficiency, without affecting the quantity or quality of the service. Discussion of 'cuts', 'savings', 'economies', 'underspendings', 'overspendings' and so forth is frequently confused by failing to distinguish between these two quite distinct categories. Just where to draw the line between them is usually a matter for argument in any particular case. The important point is to recognize that such a distinction always exists, and not to discuss any proposed changes in the budget or variations in performance without being clear into which of the two categories they fall.

The budget and variation statements cannot therefore be properly understood unless they are presented in a form which reflects the underlying non-financial assumptions or results. Where the final product consists of services, it may be difficult to find precise units of measurement as is often possible in trading undertakings producing a homogeneous commodity or repetitive batches of goods. Yet in many cases a sufficiently reliable indication of the amount of work done can be given by various statistical data, such as the numbers of cases treated or

distances covered. Where the work is not sufficiently repetitive for even this type of measurement, as with some capital schemes, building maintenance or research, it is possible to show what the budget has to cover by listing each of the main projects and their estimated cost.

Some attempt at measuring the work to be done, at least approximately, is essential before considering standards of efficiency since this depends on the relationship between the costs incurred or resources used and the goods or services produced. The standards may be formulated in terms of money—unit costs or the total cost of a programme of work—or in other quantitative terms—the amount of raw material needed to produce a given quantity of output, the staff required to handle a certain number of claims, petrol and oil consumption per vehicle-mile, and so on. The most suitable indices of efficiency will depend on the character of the services, what information has to be compiled for other purposes, and whether the standards are for use primarily by top management, technical experts or the people actually doing the job. Non-financial standards, such as manpower or fuel consumption, are often preferable at lower levels, as being more easily compiled and more readily understood. Senior administrators, with a wider range of responsibilities, tend to rely more on money values as the only common unit of measurement for all the activities under their charge.

In many public services it is difficult to reach general agreement on what standards ought to be or what a service ought to cost in any given set of circumstances. But this is no reason why the unit costs of undertakings exercising similar functions should not be used as a guide to their relative standards—both in the quality of the service provided and in the efficiency of those performing it. The action taken on Hospital Costing Returns, for example, has shown how differences in unit costs can be taken as starting points for investigations that may be most fruitful in bringing extravagances or inadequacies to light. Nor should it be forgotten that no one standard is ever likely to be an all-sufficient index of efficiency. Many factors have to be considered in conjunction with each other in order to obtain a balanced view.

To introduce more suitable standards will often call for further development of costing systems, clearer distinctions between fixed and variable expenses, flexible budgets for different levels of output, and uniform costing systems for similar undertakings. At the same time, however, it is important when seeking more precise standards, to guard against making the controls too costly. The expense of producing the information has to be balanced against the economies likely to result, as compared with what might be achieved by using more approximate standards. The standards assumed in successive budgets must also be regularly re-examined and, where appropriate, revised, and the standards actually attained must be interpreted and followed up, in the light of experience and knowledge of the attendant circumstances.

Measuring work and setting standards can present special difficulties on major capital development and research projects, where these are of a highly technical character and there have been no closely comparable schemes to which reference can be made. Their estimated total costs and the corresponding provisions in each year's budget will depend very much on the figures put forward by the technical experts or contractors immediately concerned. It is therefore essential to make these persons squarely responsible for estimates, in order to give them a personal interest in making them realistic and seeing that they are adhered to once the work begins. At the same time, much can still be done to test the validity of the experts' estimates by careful technical and administrative review of their underlying assumptions. The administrator must make a common-sense judgment of the basic soundness of the scheme. With his wide experience of other development or research projects, he should never fail to look into such questions, in so far as they are relevant, as the adequacy of contingency provisions, the probable effects of inflation, and whether sufficient allowance has been made for the associated problems of housing, transport and communications.

(*d*) *Long-Term Budgeting for Capital Expenditure*

For capital expenditure, there should always be a long-term

budget covering more than a single year. It should extend far enough into the future for schemes to be considered as part of a co-ordinated budget before the time comes for them to be planned in detail and specific authorizations sought. In this way, each proposal can first be examined in outline in relation to the expected needs or demand and other claims on the total resources available for capital investment. This helps to ensure that schemes are carried out in an agreed order of priority, and that the total volume of work planned is commensurate with the manpower, money or materials available. A long-term capital expenditure budget helps top management, governing bodies or other higher authorities in appraising proposed schemes not merely on their individual merits but in relation to one another. It also helps them to keep control over the main lines of development, while allowing their subordinates greater freedom and flexibility to plan and carry out their schemes within the general framework previously agreed. Time and effort on the part of administrators and planning staffs may be saved by not embarking on detailed plans which have to be shelved or abandoned when specific approvals are sought.

The absence of long-term budgeting for capital expenditure is particularly marked among local authorities. Government departments have tried to relate their loan sanctions to programmes of capital work for particular services, tentatively agreed in advance between the department and the authority. But even these programmes have been subject to many short-term changes as a result of government intervention directed either towards counteracting inflation or creating employment or, in the case of grant-aided capital investment, towards enabling the Ministry to adhere to its own Estimates for the year. Hence many councils have been discouraged from trying to take a comprehensive view of their capital expenditure, and have no regular long-term budgets for this purpose. In many of the smaller authorities indeed, the council do not consider even an annual capital expenditure budget, while long-term budgets are by no means the normal practice even among the larger authorities.

Uncertainty as to future prospects is among the chief reasons given for not attempting long-term budgeting for capital expenditure. This argument is especially tempting to those accustomed to seek a very high degree of precision in their revenue budgets. Long-term budgeting for capital expenditure requires a more flexible approach. Plans for more distant years should be examined in broad outline only, without going into the details of the larger schemes or even listing the smaller ones which can be settled nearer the time they are due to be carried out. The estimates for each year covered by the budget must then be regularly revised to take account of the latest information on the expected costs, needs, demand and technical possibilities.

While uncertainty as to the future is to a large extent inevitable in any organization, there is one special cause of uncertainty in public bodies that calls for further comment. This is the difficulty of ascertaining, for more than a single year ahead, how much capital investment Parliament or the government are likely to permit. For government departments and the hospital service, Parliament votes capital expenditure only for the year immediately ahead, and the nationalized industries receive definite capital investment allocations from the appropriate minister for only one year at a time. This method of financing or rationing capital expenditure may act as a deterrent to long-term budgeting. The government is endeavouring to counteract this by giving provisional indications of the investment likely to be allowed for a further period—at present two or three years for the hospital boards and the Post Office, and four years or more for the Roads Programmes. This practice should be continued and extended if long-term budgeting is to be encouraged. Ideally, the provisional indications should cover as long a period as is required to plan and carry out the largest capital schemes in the organization concerned, even if these be such major development projects as railway electrification, the replacement of piston-engined by jet aircraft or the construction of nuclear power stations. The Post Office and the hospital boards would need provisional allocations for at least twice as far ahead as at present. So long

as it were clearly understood that these were not definite authorizations to spend, they in no way interfere with the right of Parliament to have the final say when voting the Annual Estimates. They would nevertheless be a powerful incentive to the flexible, long-term budgeting that could be so valuable in securing the best use of the limited resources available for capital investment.

(*e*) *The Form of Government Accounts*

The development of budgeting in the central government has to confront special problems connected with the form of the Budget and government accounts. Parliament authorizes expenditure on the annual Estimates of cash receipts and payments, and keeps a retrospective check through Appropriation Accounts prepared on the same cash basis. As a means of controlling the authority for payments, this cash budgeting has the advantage of simplicity; it is easy to compare results with the Estimates, and the accounts can be closed promptly at the end of the year without bringing in outstanding debtors and creditors. The cash system means, however, that the Estimates can be used only to control the payments made—not the commitments entered into, which in effect determine expenditure, nor the expenditure incurred, which would indicate costs and efficiency. For these latter applications of budgeting, some departments are obliged to have separate sets of budgets and accounts, on different bases, for internal use within the departments and, in some cases, for presentation to Parliament as an adjunct to their Estimates and Appropriation Accounts.

Parliament in practice already interprets government accountability in a far broader, less legalistic sense than is implied in the formal approval of the Estimates and Appropriation Accounts. These have become associated with discussions of general policy, in Supply Day debates, and inquiries into economy and efficiency, through the Public Accounts Committee and the Select Committee on Estimates. Apart from this there is also the Treasury control of departmental spending, upon which Parliament relies for the scrutiny of commitments before they are authorized, and for a constant watch on the progress

of expenditure during the year. A broad measure of delegation of financial authority to the executive is certainly desirable and indeed inevitable. But in so far as Parliament retains the ultimate control, the information presented to it should enable it to keep check on the major issues of financial policy and efficiency in government spending. The present form of Estimates and Accounts cannot do this, since they do not bring into view some important factors which have to be taken into consideration.

As the manifold applications of budgeting have become more fully understood, suggestions have been made for enabling the Estimates to serve the purposes for which they are at present unfitted. Far-reaching changes were recommended by the Select Committee on National Expenditure in 1918. This led to the experiment of cost accounting in the Army, abandoned in 1925 as being of limited value in the absence of any change in the general financial system of the country. The Committee on the Form of Government Accounts after the Second World War recommended that the Estimates remain on a cash basis.

The alternative to this present system would presumably be to base the main parliamentary control of government expenditure on an income-and-expenditure budget and accounts. This would enable the budget to reflect the extent and costs of government activities by (i) accounting for items in the year when they are earned or expended, as distinct from that in which the payment happens to be made; and (ii) separating current and capital items much more clearly than is done by the present use of separate Subheads and 'below the line' transactions, and including depreciation in the revenue budget where appropriate to show the full cost of each service in any given year. In order to measure costs accurately, it would also be necessary to reallocate such items as staff costs, at present very often segregated into separate votes, to the services they ultimately benefit.

In many departments, the change-over to income-and-expenditure budgeting might make little practical difference. Their capital expenditure is often very small, and most of their revenue expenses may be social service payments or salaries

and wages, for which there are no appreciable carry-overs. Even where there are substantial carry-overs for stores or contracts, the level of activity may be sufficiently stable for these to vary very little from year to year. But in trading departments and in any other services where there are fluctuating carry-overs or substantial capital expenditure, income-and-expenditure budgeting would have advantages. Advocates of the change argue that it would make the budget and accounts presented to Parliament a fit instrument for policy-making, measuring costs and apportioning responsibility instead of leaving these to be done, if at all, by separate, overlapping, budgetary controls.

A complete change-over in the form of the budget and accounts would be a major operation that could clearly not be carried out overnight. Without entering into a detailed examination of the problems which might be encountered, it can nevertheless be noted that local authorities and a number of foreign governments use income and expenditure budgets. Their experience shows that it is possible for the authorization and control of expenditure by an elected assembly to be carried out effectively with this form of accounts.

(*f*) *Carry-Over of Unspent Balances*

Public bodies whose capital expenditure is voted by Parliament or rationed by the government frequently criticize the fact that unspent balances of their Estimates or Allocations cannot be carried forward to the following year. The hospital boards have been especially vocal in condemning these arrangements as an impediment to the most effective use of scarce resources. It tends to make them bring forward schemes of lower priority in order to use up balances that would remain unspent when some of the work in their original budget is unavoidably delayed, and deliberately to slow down or postpone budgeted schemes when there is a risk of overspending the year's Allocation. As pointed out in Chapter IX, these risks should not assume serious proportions if there are properly planned long-term and annual budgets and regular reports of variations. But these can only minimize the practical disadvantages of

this method of financing. They do not remove its inherent defects in encouraging spenders to adjust their plans in ways detrimental to long-term economy.

The solution of this difficulty is closely related to the development of long-term capital expenditure budgets already advocated. If these could be recognized as the main instrument for regulating the total volume of capital investment, marginal variations in the amount spent in particular years might be regarded more leniently provided they did not imply that the total capital expenditure over the longer period, or the contents of the underlying programme of work, were likely to exceed the amount originally approved.

Similar carry-over difficulties may arise, although usually on a smaller scale, on certain items in a revenue budget, notably the maintenance of buildings, plant and equipment. Desirable but non-essential jobs or purchases may be held back or brought forward to offset the effects of emergency repairs or delayed deliveries, upsetting the agreed order of priorities. Here again, realistic budgets and rapid reporting of variations can do much to lessen the risk of major additions to long-term costs. In the hospital service some boards and management committees already endeavour to make compensating adjustments for overspendings and underspendings on these items when fixing their Allocations for future years.

It is also important, in trying to make the best use of the funds available for maintenance work, to distinguish between those jobs and purchases which can be foreseen and estimated in advance, and the emergency expenditure that will almost inevitably be needed to deal with unpredictable accidents and breakdowns. For the former, it should be possible to fix definite annual budgets to which the spenders should be able to adhere. Long-term budgets are also desirable in order to ensure that those responsible draw up a rational long-term plan of maintenance work. But emergency items that are clearly beyond their control should be met from a central reserve, whence issues can be made to meet necessary expenses as they are incurred. Emergency expenditure can be more accurately estimated centrally, as a wider range of risks will be covered.

Such a distinction between the two categories of maintenance will thus do much to alleviate the carry-over problem and the waste of holding unnecessarily large contingency reserves.

(g) *Efficiency as the Ultimate Object*

A budgetary system must never be regarded as an end in itself. The ultimate test is whether it enables an organization to do its job better than it could without it. Hence it must be designed and adapted as required to suit the needs of those whom it is intended to serve.

No budgetary system must ever be allowed to become so elaborate that the cost of operating it is out of all proportion to the benefits likely to result. The temptation to seek excessive precision has always to be avoided. The budget must not take so long to prepare that the estimates are settled too early to be realistic by the time it comes into operation. Nor should the variation statements be so elaborate that they are not ready until it is too late to remedy anything they show to have been going wrong. Much more use could often be made of techniques of approximation, as described in Chapter VII, to provide rapid running checks, by reference to statistics of work done, manpower, wages, vehicle-mileages and similar data. These can always be supplemented by more precise budget comparison statements at less frequent intervals.

Another pre-requisite for avoiding waste and inefficiency in the budgetary system itself is to bring the forms and procedures themselves under regular review. Those to whom information is supplied should be questioned to make sure that it is really used, and anything which is not should either be scrapped or else recast in such a way that it can be readily understood and acted upon.

The preceding chapters have shown how the importance of budgeting, its manifold practical applications, and the points requiring special attention if its full potentialities are to be realized, are all widely recognized in the public sector in Great Britain. At the same time, it is generally recognized that existing methods, while mostly on the right lines, are still capable of improvement in many respects. Real progress

in the use of budgeting cannot be imposed by radical changes from above, but must spring from critical experiment and adaptation within each organization. This chapter has therefore sought to assist those who are seeking to develop their present arrangements by drawing attention to points that experience has shown to be especially significant in increasing the value of budgeting as an aid to administration. In the last resort, of course, the success of any budgetary system will depend on how far it makes those who work within it constantly aware of the financial implications of their actions and decisions, and alive to the need to maximize efficiency in all that they do.

BIBLIOGRAPHY

I. GENERAL PRINCIPLES

'Budget', *Encyclopædia Britannica* (London, 1957 printing), Vol. IV, pp. 329–337.

'Budget'. *Encyclopædia of the Social Sciences* (*Macmillan & Co*, New York, 1930), Vol. III, pp. 38–44.

Financial Control: its Place in Management (Macdonald and Evans, Ltd., and Institute of Public Administration, London, 1951).

Introduction to Budgetary Control, Standard Costing, Material Control and Production Control (Institute of Cost and Works Accountants, London, 1950).

Lewis, Verne B., 'Towards a Theory of Budgeting', *Public Administration Review*, Vol. XII, No. 1, Winter 1952, pp. 42–54.

Management Accounting (Anglo-American Council on Productivity, London, 1950).

The Place of Finance in Public Administration (Institute of Municipal Treasurers and Accountants (Incorporated), London, 1954).

Robson, Lawrence W., 'Management Accounting for Public Administration', *Public Administration* (London), Vol. XXXII, Summer 1954, pp. 172–180.

Sherwood, Frank P., *The Management Approach to Budgeting* (International Institute of Administrative Sciences, Brussels, 1954).

Terminology of Cost Accountancy (Institute of Cost and Works Accountants, London, 1954).

II. CENTRAL GOVERNMENT

Baker, R. J. S., 'Post Office Building Programmes', *Public Administration* (London), Vol. XXXVI, Summer 1958, pp. 125–143.

Beer, Samuel H., *Treasury Control*, 2nd edition (Clarendon Press, Oxford, 1957).

Bridges, Lord (Edward E.), 'The Elements of Any British Budget', *Administration* (Dublin), Vol. 5, No. 2, Summer 1957, pp. 9–24.

Chubb, Basil, *The Control of Public Expenditure: financial committees of the House of Commons* (Oxford University Press, London, 1952).

Final Report of the Committee on the form of Government Accounts (Chairman, W. F. Crick), Cmd. 7969/1950.

Hicks, J. R., *The Problem of Budgetary Reform* (Clarendon Press, Oxford, 1948).

Hicks, Ursula K., *Public Finance*, 2nd edition (James Nisbet and Co. Ltd., London and University Press, Cambridge, 1955).

Hills, The Rt. Hon. John and Fellowes, E. A., *The Finance of Government*, 2nd edition (Philip Allan, London, 1932).

Jennings, (Sir) W. Ivor, *Cabinet Government*, 2nd edition (University Press, Cambridge, 1951), Chapter VII, 'Treasury Control', pp. 132–159; Chapter XI ,'Economic Policy', pp. 294–302.

Jennings, (Sir) W. Ivor, *Parliament*, 2nd edition (University Press, Cambridge, 1957), Chapter IX 'Financial Control', pp. 283–340; Ch. X 'The Nationalized Industries' pp. 341–354; Appendix IV 'The Annual Financial Legislation', pp. 539–541.

Mackenzie, W. J. M. and Grove, J. W., *Central Administration in Britain* (Longmans, Green and Co., London, 1957), Chapter XVIII 'Accounting and Financial Control', pp. 330–333.

Marre, A. S., 'Departmental Financial Control', *Public Administration* (London), Vol. XXXV, Summer 1957, pp. 169–178.

Notes for the Use of Accounts Branches of Government Departments (H.M.S.O., London), 4th edition, 1929.

Report on Post Office Development and Finance, Cmd. 9576/1955.

Powell, J. Enoch, 'Treasury Control in an Age of Inflation', *The Banker* (London), Vol. CVIII, No. 387, April 1958, pp. 215–219.

Fourth Report from the Committee of Public Accounts, H.C. 1950–51/241, Paras 1–19, 'Treasury Control'.

First Report from the Committee of Public Accounts, H.C. 1951–52/85, pp. xiv–xviii, 'Treasury Control'.

Second Report from the Committee of Public Accounts, H.C. 1952–53/106, Paras 1–9, 'Excess Votes'.

Special Report from the Committee of Public Accounts, H.C. 1953–54/67, pp. vi–vii, 'Excess Votes'.

Epitome of the Reports from the Committees of Public Accounts, 1857 to 1937, H.C. 1937–38/154.

Epitome of the Reports from the Committees of Public Accounts, 1938 to 1950, H.C. 1951–52/155.

Treasury Control of Expenditure, Sixth Report from the Select Committee on Estimates, H.C. 1957–58/254.

Tribe, Sir Frank, 'Parliamentary Control of Public Expenditure', *Public Administration* (London), Vol. XXXII, Winter, 1954, pp. 363–387.

Young, E. Hilton (Lord Kennett), *The System of National Finance* (Smith, Elder and Co., London, 1915).

ANNUAL OFFICIAL PUBLICATIONS

House of Commons Sessional Papers:

Civil Estimates, Classes I–X.
Estimates for Revenue Departments.
Ministry of Defence Estimate.
Air Estimates.
Army Estimates.
Navy Estimates.
Supplementary Estimates.
Civil Appropriation Accounts.
Revenue Departments Appropriation Accounts.
Ministry of Defence Appropriation Account.
Air Services, Appropriation Account.
Army Appropriation Account.
Navy Appropriation Account.
Trading Accounts and Balance Sheets.

Post Office Commercial Accounts and Report.
Statement of Revenue and Expenditure as laid before the House by the Chancellor of Exchequer when opening the Budget (the annual 'Financial Statement').
Reports from the Select Committee on Estimates.
Reports from the Committee of Public Accounts.

Annual Command Papers:
Statement on Defence.
Economic Survey.
Memorandum on the Ministry of Education Estimates.
National Income and Expenditure: Preliminary Estimates.

Central Statistical Office, *National Income and Expenditure.*

Parliamentary Debates (Hansard), Official Report, Public General Acts.

Ministry of Transport and Civil Aviation, *Roads in England and Wales: Report for the Year.*

III. HOSPITAL SERVICE

Report of the Committee of Inquiry into the Cost of the National Health Service (Chairman, C. W. Guillebaud), Cmd. 9663/1956.

Ministry of Health, *Report of the Working Party on Hospital Costing* (H.M.S.O., 1955).

Ross, Sir James, 'The Hospitals and the Governmental System of Finance and Accounts', *Public Administration*, Vol. XXXII, Autumn 1954, pp. 311–323.

'Regional Hospital Boards and Hospital Management Committees', *Eleventh Report from the Select Committee on Estimates, 1950–51*, H.C. 1950–51/261.

'Running Costs of Hospitals', *Sixth Report from the Select Committee on Estimates*, 1956–57, H.C. 1956–57/222.

'Observations of the Minister of Health on the Sixth Report of the Select Committee on Estimates in Session, 1956–57 (on Running Costs of Hospitals)', *Fourth Special Report from the Select Committee on Estimates, 1957–58*, H.C. 1957–58/129.

Ministry of Health, *Hospital Costing Returns* (H.M.S.O., annual).

National Health Service Acts, 1946 to 1952, Summarized Accounts of Regional Hospital Boards, Boards of Governors of Teaching Hospitals, Hospital Management Committees, Executive Councils (including Joint Pricing Committees) and the Dental Estimates Board, for England and Wales (House of Commons Sessional Paper, annual).

National Health Service (Scotland) Acts, 1947 to 1952. Summarized Accounts of Regional Hospital Boards, Boards of Management, Executive Councils (including Drug Accounts Committee) and the Dental Estimates Board, for Scotland (Ib.).

IV. LOCAL AUTHORITIES

Drummond, J. M., *The Finance of Local Government* (George Allen and Unwin Ltd., London, 1952), Chapter IV, 'The Budget'.

Goodhead, F. B., 'Commitment Accounting', *Telescope* (London), Vol. 8, No. 2, July 1956, pp. 70–75.

The Form of Published Accounts of Local Authorities (Institute of Municipal Treasurers and Accountants (Incorporated), London, 1955).

Imrie, J. D. (now Sir John), 'Budgeting in Theory and Practice', *Students Societies' Lectures* (Institute of Municipal Treasurers and Accountants (Incorporated), London), 1948–49, No. 12, pp. 232–258.

Jackson, R. M., *The Machinery of Local Government* (Macmillan and Co. Ltd., London, 1958), Chapter IX 'Finance'.

Local Authority Borrowing (Institute of Municipal Treasurers and Accountants (Incorporated), London, 1957).

Marshall, A. H., *Local Authorities' Internal Financial Control* (Institute of Public Administration, London, 1936).

The Use of the Revenue Budget as a Means of Financial Control (Institute of Municipal Treasurers and Accountants (Incorporated), London, 1954).

Annual Publications of the Individual Councils: *Estimates, Accounts in Abstract*, etc.

V. NATIONALIZED INDUSTRIES

Report from the Select Committee on Nationalized Industries, H.C. 1952–53/235.

Report of the Advisory Commission on Organization (Chairman Dr (now Sir) Alexander Fleck), (National Coal Board, London, 1955).

Plan for Coal (National Coal Board, London, 1950).

Investing in Coal (National Coal Board, London, 1956).

Report of the Committee of Inquiry into the Electricity Supply Industry (Chairman, Sir Edwin Herbert), Cmd. 9672/1956.

Power and Prosperity (British Electricity Authority, London, 1954).

Power for the Future (Electricity Council, London, 1958).

Knight, C. E., *An Area Board Accountant's Contribution to Management* (British Electricity Authority, London, 1954).

Fuel for the Nation (The Gas Council, London, 1954).

Gas Looks Ahead (Ib., 1958).

The Modernization and Re-equipment of British Railways (British Transport Commission, London, 1955).

Bevan, K. W. 'Practical Standard Costing: A Case Study' (B.O.A.C.), *The Cost Accountant*, Vol. 37, No. 6, November, 1958, pp. 211–216.

House of Commons Sessional Papers:

Annual Report and Accounts, of the various public corporations.

Finance Act, 1956, Advances to National Industries and Undertakings (Ministry of Power), Account.

Finance Act, 1956, Advances to Nationalized Industries and Undertakings (Secretary of State for Scotland), Account.

Finance Act, 1956 *and Transport (Railway Finances) Act*, 1957, *Advances to Nationalized Industries and Undertakings (Minister of Transport and Civil Aviation)*, Account.

Annual Command Papers (1957 onwards):

Capital Investment in the Coal, Gas and Electricity Industries.

Reports from the Select Committee on Nationalized Industries (Reports and Accounts).

VI. PUBLIC BUDGETING ABROAD

(*a*) UNITED STATES

The following is a small selection of the most important and up-to-date items from the extensive literature on this subject which is quite unparalleled in any other country.

Buck, A. E., *Public Budgeting: a discussion of budgetary practice in the national, state and local governments of the United States* (Harper Bros., New York and London, 1929).

Burkhead, Jesse, *Government Budgeting* (John Wiley and Sons. Inc., New York, and Chapman and Hall, Ltd., London, 1956),

Commission on the Organization of the Executive Branch, *Budgeting and Accounting*, a Report to the Congress, February 1949.

Task Force Report on *Fiscal, Budgeting, and Accounting Activities*, prepared for the Commission on Organization of the Executive Branch of the Government, 1949.

Commission on the Organization of the Executive Branch of the Government *Budget and Accounting*, a Report to the Congress, June 1955.

Task Force Report on *Budget and Accounting*, prepared for the Commission on the Organization of the Executive Branch of the Government, 1955.

Morey, Lloyd and Hackett, Robert Phillip, *Fundamentals of Government Accounting* (John Wiley and Sons, Inc., New York, and Chapman and Hall, Ltd., London, 1942).

Smithies, Arthur, *The Budgetary Process in the United States* (McGraw-Hill Book Company, Inc., New York, Toronto and London, 1955).

(*b*) OTHER COUNTRIES

Annales de Finances publiques, Vols. VI–XII (Université de Paris, Institut de Droit comparé, Section de Finances

publiques, 1947–1951), Articles on budgeting in Belgium, Germany, Italy, Netherlands, Sweden, Switzerland, U.K., U.S.A.

Budgetary Structure and Classification of Government Accounts (United Nations, Department of Economic Affairs, New York, 1951).

Campion, Lord and Lidderdale, D. W. S., *European Parliamentary Procedure: a Comparative Handbook* (George Allen and Unwin, Ltd., London, for The Inter-Parliamentary Union).

Proceedings of the IX Congress of Administrative Sciences, Istanbul, 1953 (International Institute of Administrative Sciences, Brussels, 1953), pp. 141–151 'The Budget as the Working Programme of the Government', and mimeographed reports relating to this topic from France, Italy and the Netherlands.

Mey, Abram, 'Les transformations de la comptabilité publique', *Revue internationale des sciences administratives* (International Institute of Administrative Sciences, Brussels), 1951, No. 3, pp. 470–492 (An account of reforms in government budgeting and accounting in the Netherlands, with a summary in English).

La Réforme budgétaire, 3 vols. (Institut de Droit comparé de l'Université de Paris, les Editions de l'Epargne, Paris, 1954–56).

VII. PERIODICALS

The following journals contain valuable articles and notes on many aspects of public budgeting in Britain and abroad:

Accountancy, Journal of the Institute of Chartered Accountants, London, monthly.

The Accountant, Gee and Co., Ltd., London, weekly.

Administration, Journal of the Institute of Public Administration, Dublin, quarterly.

The Cost Accountant, the official journal of the Institute of Cost and Works Accountants, London, monthly.

Hospital Service Finance, the official journal of the Association of Chief Financial Officers in the Hospital Service in England and Wales, London, every two months.

Institute of Municipal Treasurers and Accountants Students' Societies' Lectures, published each year as a series of pamphlets.

Local Government Finance, Journal of the Institute of Municipal Treasurers and Accountants (Incorporated), London, monthly.

Public Administration, Journal of the Royal Institute of Public Administration, London, quarterly.

Public Administration Review, the Journal of the American Society for Public Administration, Chicago, quarterly.

Public Finance, The Hague, quarterly.

Revue Internationale des Sciences Administratives, International Institute of Administrative Sciences, Brussels, quarterly.

Telescope, Official Journal of the Joint Committee of Students' Societies of the Institute of Municipal Treasurers and Accountants, London, monthly.

INDEX

GEORGE ALLEN & UNWIN LTD
London: 40 *Museum Street, W.C.* 1

Auckland: 24 *Wyndham Street*
Bombay: 15 *Graham Road, Ballard Estate, Bombay* 1
Calcutta: 17 *Chittaranjan Avenue, Calcutta* 13
Cape Town: 109 *Long Street*
Karachi: Metherson's Estate, Wood Street, Karachi 2
New Delhi: 13–14 *Ajmeri Gate Extension, New Delhi* 1
Sao Paulo: Avenida 9 *de Julho* 1138-*Ap.* 51
Singapore, South East Asia and the Far East: 36c *Princep Street*
Sydney, N.S.W.: Bradbury House, 55 *York Street*
Toronto: 91 *Wellington Street West*

THE NEW WHITEHALL SERIES

is prepared under the auspices of

THE ROYAL INSTITUTE OF PUBLIC ADMINISTRATION

and is edited on its behalf by Sir Robert Fraser, O.B.E.

The purpose of the series is to provide authoritative descriptions of the present work of the major Departments of Central Government

Already published

THE HOME OFFICE
Revised 2nd Edition. Demy 8vo. 18s net

THE FOREIGN OFFICE
Second Impression. Demy 8vo. 18s. net

THE COLONIAL OFFICE
Demy 8vo. 18s. net

THE MINISTRY OF WORKS
Demy 8vo. 15s. net

THE SCOTTISH OFFICE
Demy 8vo. 21s. net

THE MINISTRY OF PENSIONS AND NATIONAL INSURANCE
Demy 8vo. 18s. net

THE MINISTRY OF TRANSPORT AND CIVIL AVIATION
Demy 8vo. 21s. net

THE MINISTRY OF LABOUR AND NATIONAL SERVICE
Demy 8vo. About 21s. net

In Preparation

THE MINISTRY OF SUPPLY

THE TREASURY

THE DEPARTMENT OF INLAND REVENUE

THE ADMIRALTY

THE COMMONWEALTH RELATIONS OFFICE

ROYAL INSTITUTE OF PUBLIC ADMINISTRATION

ELEMENTS OF LOCAL GOVERNMENT ESTABLISHMENT WORK

The importance of sound personnel management has become increasingly recognized in recent years. The shortage of man power, which has persisted since the early days of the last war and which shows no signs of abating, has made it imperative for employers to use all available labour as effectively and economically as possible.

The Local Government Service includes many trades and professions, and local authorities are devoting increasing attention to the staffing problems involved. Their methods and experience therefore interest others concerned with personnel management. Moreover, conditions of service in local government have repercussions on those in other important fields of employment.

This book was produced by a study group of the Institute of Public Administration. Among the authors are the establishment officers of the London County Council, Lancashire and Cornwall County Councils, Birmingham City Council, Croydon Borough Council, and Edinburgh, Manchester and Sheffield City Councils.

'As an authoritative introduction to the subject and a stimulus to further study this book must be warmly recommended.' *Municipal Journal.*

Crown 8vo. 7s. 6d. net

THE HEALTH SERVICES

SOME OF THEIR PRACTICAL PROBLEMS

The cost and methods of administering the National Health Service have been the subject of much controversy in this country and abroad, especially in the U.S.A., since its inception in 1948. This discussion has become all the more intense as a result of the need to reconcile the claims of the social services with the demands of the defence programme.

This book deals with many controversial issues and includes chapters on: the Health Services from the patient's point of view, the Health Services in relation to Central and Local Government, administrative problems of the general practitioner, the work of the Medical Practices Committee, problems of hospital administration, medico-social services and the patient, mental health services, the role of local health authorities, financial problems, and planning and co-ordination.

It is the first major study of the National Health Service and will be of vital interest to a wide range of readers. *Introduction by H. Lesser.*

Demy 8vo. 10s. 6d. net